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'I defy anybody to find cross-subsidy'
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FINANCIAL TIMES

Europe's Business Newspaper MONDAY JULY 19 1993 D8523A

Croats open key north-south bridge link

The Maslenica bridge linking northern and southern Croatia was opened by Croatian president Franjo Tudjman yesterday after delays forced by Serb shelling. It replaced a bridge blown up in Croat-Serb fighting in 1991. Although Croatia and Serbia have agreed to demilitarise the bridge and consign it to UN control by the end of the month, the opening could raise tension and spark renewed hostilities between Serbs and Croats. **Earlier report, Page 3**

BT share sale: Strong institutional demand, particularly from North America, means UK personal investors have been allocated fewer British Telecom shares than in the UK government's previous sale. The price of the international offer was set at 420p, 12p above BT's 408p Friday close. **Page 7; Lex, Page 14; Who gets what, Page 16**

Fed's new chief: William McDonough, 59, a commercial banker from Chicago, today becomes president of the Federal Reserve Bank of New York and chief firefighter for the US financial system. Generally sanguine about US banks, he is cautiously optimistic about the economy and expects inflation to stabilise at around 3 per cent for the rest of this year. **Page 14**

Microsoft of the US, the world's biggest computer software company, may face a court order when the results of a long-running antitrust investigation of the company are considered by the US Federal Trade Commission this week. **Page 15**

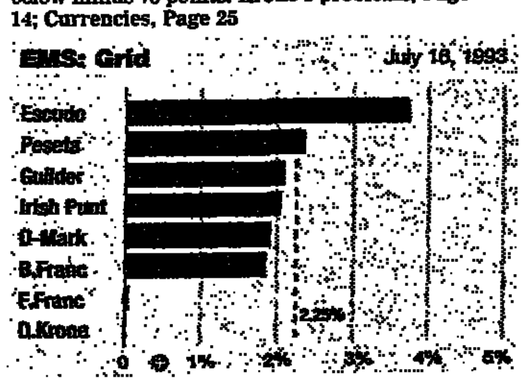
Floods spread in US Midwest: Rising floodwaters road and rail links over a vast area of the US Midwest. Most recent estimates put the flood damage at over $9bn and forecasters are predicting yet more rain. **Picture, Page 4**

Inkatha pulls out: Chief Mangosuthu Buthelezi's Inkatha Freedom party voted to boycott South African democracy talks until it is guaranteed a veto right on decisions about the country's future. **Threat to talks, Page 4**

Germany toughens stance on air access: German transport minister Matthias Wissman warned that his country might cancel a longstanding air traffic pact with the US unless Washington agreed to grant German carriers greater access to US airports.

Aideed calls for Somalia rising: Fugitive Somali warlord Mohamed Farah Aideed urged his followers to rise up against the multinational UN peacekeeping force in retaliation for US-led bombings of his strongholds. **Shift to diplomacy, Page 6**

European Monetary System: The currency markets will be focused on the Danish krone and the French franc. Both came under heavy speculative pressure in the exchange rate mechanism last week, with the krone replacing the franc at the bottom of the currency grid. Despite concerted central bank intervention the franc and krone finished last week with ERM divergence indicators of minus 80 percentage points and minus 72 points respectively. ERM central banks are expected to act when a currency has fallen below minus 75 points. **Krone's problems, Page 14; Currencies, Page 25**



The chart shows the member currencies of the exchange rate mechanism measured against the weakest currency in the EMS's narrow 2.25 per cent fluctuation band. In practice, currencies in the narrow band cannot rise more than 2.25 per cent from the weakest currency in that part of the system. The Spanish peseta and Portuguese escudo operate with 6 per cent fluctuation bands.

China reviews investment rules: China is considering new rules on foreign investment that could mean higher taxes for foreign-funded ventures but fewer restrictions on access to the domestic mparket, the official China Daily newspaper said.

Mexico's government has sold two state-owned television networks plus cinemas and other media companies for $641m to Grupo Radio Televisora del Centro, a company formed by the owners of electrical and white goods chain Grupo Elektra.

Shanghai Petrochemical, the largest of nine state-owned Chinese companies to be listed in Hong Kong, was only 1.77 times subscribed in the colony. Two issuing houses subscribed for half the shares. **Page 15**

Norman conquest: Australian golfer Greg Norman won the British Open golf championship at Royal St George's, southern England, with a final round of 64. His aggregate total of 267 was a record for the competition. Britain's Nick Faldo was second on 269.

Miyazawa under pressure to quit as party is forced to negotiate coalition

Japanese Liberal Democrats lose power

By Charles Leadbeater, Robert Thomson and Emiko Terazono in Tokyo

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JAPAN'S Liberal Democratic party yesterday lost its overall parliamentary majority after almost 40 years in government, ushering in a period of political instability without precedent since the second world war.

The LDP will be able to keep a hold on power only in coalition, probably with one of the new conservative parties which made impressive gains at the expense of the socialist opposition in yesterday's snap general election.

Party leaders will start bargaining today over the shape of a coalition government, the core of which could be formed either by the LDP or an alliance of opposition parties.

Mr Kiichi Miyazawa, the prime minister, was last night under pressure from within his own party to resign to take responsibility for the setback and clear the way for talks on a coalition.

The uncertainty of coalition government will be a sharp contrast to the stability which has been the hallmark of the LDP's rule since it was formed by a merger of two conservative parties in 1955.

The party, working hand in glove with the Japanese business community and the powerful bureaucracy, has taken the country from widespread hunger and homelessness after the war to become one of the world's richest economies.

The LDP stayed in power by keeping pace with the social changes unleashed by Japan's economic growth, transforming itself into a modernising catch-all party of the right. The election suggests the mantle of modernisation has passed into new hands.

Although the LDP emerged from the elections as overwhelmingly the largest party in the 511-member lower house of the Diet (parliament), the balance of power will be held by recently formed reformist conservative parties: the Japan New party, launched a year ago, its ally the New Harbinger party, and the Japan Renewal party, formed by a breakaway of 36 lower house LDP members a month ago.

The Japan Renewal party, led by Mr Tsutomu Hata, a former finance minister, did better than expected, winning 55 seats. The Japan New party won 35 seats in its first general election. The NHP, which is expected to merge with the Japan New party, won 13 seats.

The LDP, in an impressive display of electoral durability based on the strength of its local organisation, won 223 seats, broadly maintaining its strength following last month's split in spite of the prolonged recession and recurring political scandals. When the last parliament was dissolved, the LDP had 227 MPs.

The main losers were the Social Democratic party, the former Socialists – which prompted the election by lodging a no-confidence motion in the government on June 18.

The SDP lost 64 of its 134 seats, mainly in urban areas where independent voters turned to the new parties. Mr Akira Yamagishi, president of Rengo, Japan's largest trade union organisation, confirmed that the SDP's demise may be terminal. He said: "The SDP will have little impact on Japanese politics in the future."

Komeito, the clean government party, increased its standing by four seats to 49, while the other centrist parties either maintained or marginally increased their representation. The turnout was a record low of 67.2 per cent, suggesting that many Japanese used abstention to voice disatisfaction with the LDP rather than turn to the new parties.

Mr Gaishi Hiraiwa, the chairman of the Keidanren, the employers' federation, called for the formation of a stable LDP coalition, while other business leaders welcomed the rise of the new conservative groups to provide an alternative to the socialists and the LDP.

Mr Hata called for the new parties to discuss a parliamentary pact on the basis of their underlying agreement on policies, particularly towards electoral reform.

Final Japanese results (seats in lower house)

	New	Old
Liberal Democratic	223	227
Socialists	70	134
Japan Renewal	55	36
Komeito	51	45
Japan New	35	0
Democratic Socialist	15	13
Communists	15	16
Harbinger New	13	10
Socialist Dem Fed	4	4
Minor/others	30	12
Vacant seats	na	15
TOTAL	511	512

Reuter

Happy faces: Tsutomu Hata (left), leader of the Japan Renewal party, paints an eye on a lucky doll to the evident approval of party secretary-general Ichiro Ozawa following their election success

Major increases pressure over treaty

By David Owen in London

MR JOHN MAJOR, the UK prime minister, yesterday refused to countenance defeat in this week's crucial parliamentary vote on the Maastricht treaty's social chapter as he stepped up pressure on opponents within his own Conservative party to fall into line.

Entering the most difficult week of his premiership, Mr Major repeatedly expressed incredulity that any Conservative MP would vote for proposals that he said would raise unemployment and transfer "massive" powers from the UK to Brussels.

"I don't believe – given the nature of the social chapter – that Conservative MPs, when they consider what it means and what it can do, are going to do other than support the government," Mr Major said.

Interviewed on BBC TV's On The Record, the prime minister was adamant Thursday's vote was not about ratifying the treaty or his own political future. "Here is a free-standing debate on the social chapter," he said, four times sidestepping the suggestion it would amount to a vote of confidence in him.

But some opponents immediately rejected this position and called for the government to make it clear whether it intended to ratify Maastricht with Britain's social chapter opt-out intact irrespective of the outcome of Thursday's vote.

"This is not at all about the social chapter – it is about whether or not the treaty proceeds," said a Euro-sceptic, predicting that Mr Major would have "a few tough weeks" ahead of him.

As senior ministers said privately it was "inconceivable" the government would not ratify Maastricht, the prime minister dismissed as not "remotely likely" suggestions his current problems might trigger a leadership challenge.

Mr Major admitted that recent moves to seek a judicial review of Maastricht in the High Court might "inhibit" ratification – "but that would be the only inhibition".

Some Euro-sceptics were yesterday confident there are enough Tory rebels to defeat the

Continued on Page 14

Efim liquidation blocked by EC dispute

By Robert Graham in Rome and Haig Simonian in Milan

THE UNDOING OF EFIM Page 2
- Liquidation exposes Italian economic fault lines
- Rome plots survival course for defence industry

A BITTER dispute between Italy and the European Commission over state subsidies is blocking disbursement of L7,000bn ($4.4bn) earmarked by the Italian government to pay banks and suppliers owed money by Efim, the state industrial holding placed in liquidation last July.

Italian officials maintain that if the matter is not resolved quickly, the liquidation process risks being undermined and the cost of the operation increased. Already the eventual cost of liquidating Efim, with outstanding debts of L18,000bn, is expected to be as much as L17,000bn.

Representatives of foreign banks, seeking to recover principal and interest on L3,500bn, were told bluntly last week at a meeting in Rome with the Treasury: "Don't blame us – blame Brussels." The banks had suspected the Treasury of using the stance taken by Brussels as an excuse not to pay, but they now accept the deadlock is genuine.

The matter is all the more embarrassing to the Italian government since the original liquidation announcement was so badly handled that it affected Italy's international credit rating. The banks were not consulted in advance and were initially led to expect a two-year moratorium with repayment at below market rates of interest on what amounted to sovereign debt.

The Efim funds have been blocked since April on the grounds that they constitute a form of unfair aid, albeit retrospective, to state-owned companies invoking articles 92 and 93 of the Treaty of Rome. EC officials insist it is a question of Italy conforming to the rules. The Italians have countered by saying the liquidation process is precisely to prevent the state from subsidising the Efim group of 120 companies any more. The Treasury also maintains it has a legal obligation to honour the debts since Efim has been recognised in effect as sovereign risk.

The foreign banks meanwhile are angry at the way Brussels is telling them that, in lending to Efim and its subsidiaries, they should have checked more carefully whether the latter were unfairly subsidised by the state.

Italian officials believe the liquidation of Efim has been caught up in the broader battle between Italy and the EC over state subsidies to industry. Italy is currently refusing to accept the view of Mr Karel Van Miert, the competition commissioner, that writing off Ecu4bn ($4.5bn) of aid to Ilva, the state steel producer, amounts to state assistance.

Pakistan to appoint interim premier as Sharif steps down

By Farhan Bokhari in Islamabad

MR MOEEN Qureshi, a former vice-president of the World Bank, was last night expected to be appointed as Pakistan's caretaker premier after the army arranged a deal which brought the resignation as prime minister of Mr Nawaz Sharif.

Mr Sharif announced on television last night that he would step down, and President Ghulam Ishaq Khan was expected to follow suit. The two have been engaged in a power struggle for the last six of Mr Sharif's 32 months in office. Elections for the presidency and a new government are planned by the autumn.

In an effort to ensure their impartiality, the new prime minister and other ministers in the interim government were almost certain to give commitments not to contest the election, senior government officials said.

Similar caretaker governments are expected to be set up in Pakistan's four provinces, where early elections would be held.

As well as his wide international experience, Mr Qureshi, has the advantage of having no affiliation with any political group in Pakistan, the officials added.

Mr Qureshi's World Bank credentials are considered a plus for Pakistan's efforts to seek a $1bn loan from the International Monetary Fund under the extended structural adjustment facility this year. Islamabad is also due to present its case to an annual aid consortium meeting due to be held in Paris in September.

A meeting scheduled in April had to be cancelled after Mr Sharif was dismissed from office by Mr Khan, whose decision was subsequently overturned by the country's supreme court.

Mr Khan was expected to hand over power to Mr Wasim Sajjad, chairman of the senate.

The negotiations between Mr Khan and Mr Sharif were arranged by General Abdul Waheed, the powerful army chief of staff. Ms Benazir Bhutto, the opposition leader, has already agreed to the arrangements, which meet her demand for fresh elections.

Mr Sharif had sought to mend fences with Ms Bhutto but was apparently unwilling to concede ground even on symbolic issues. There was virtually no progress on withdrawing the corruption charges against Ms Bhutto, filed when her government was sacked in August 1990 and which are unlikely ever to be proved in court.

During a recent meeting with Mr Khan Ms Bhutto asked him to use his constitutional powers to dissolve the elected assemblies, sack Mr Sharif's government and call fresh elections.

The power struggle had created economic uncertainty, with some investment plans put on hold. In his address last night Mr Sharif accused his critics of seeking to stop his efforts aimed at alleviating poverty and promoting economic development.

						S.Arabia	SR11
Austria	Sch30	Germany	DM3.30	Malta	Lm0.60	Singapore	S$4.10
Bahrain	Din1.250	Greece	Dr300	Morocco	MDh13	Slovak Rp	KSL45
Belgium	BFr60	Hungary	Ft172	Neth	Fl 3.75	Slovenia	SLT220
Bulgaria	Lw25.00	Iceland	IKr215	Nigeria	Naira45	South Africa	R12.00
Croatia	HRD5700	India	Rs40	Norway	NKr16.00	Spain	Pta210
Cyprus	C£1.00	Israel	Shk5.90	Oman	OR1.50	Sweden	SKr15
Czech Rp	Kcs45	Italy	L2700	Pakistan	Rs35	Switz	SFr3.20
Denmark	DKr15	Jordan	JD1.50	Philippines	Pso45	Syria	S£50.00
Egypt	E£4.50	Kuwait	Fils.600	Poland	Zl 22,000	Tunisia	Din1.250
Finland	FM12	Lebanon	US$1.25	Portugal	Esc215	Turkey	L8000
France	FFr9.00	Lux	LFr60	Qatar	QR12.00	UAE	Dh11.00

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The government's ability to handle its ambitious privatisation programme will be put to the test

Liquidation exposes Italian economic fault lines

By Robert Graham in Rome

THE FAULTS and weaknesses of the Italian economic system have been exposed by the liquidation of Efim, the state industrial holding, which will cost taxpayers at least L17,000bn (£7.2bn).

A year after a hurried decision was taken by the then government of Prof Giuliano Amato to place the chronic lossmaker in voluntary liquidation, Efim is still very much alive – rather than half dead as it should be by now.

The first asset disposal of the holding's 120 companies is due to be concluded this week with the L210bn sale of Siv, the glassmaker. But the liquidation process is unlikely to meet the ambitious two-year deadline of July 1994.

This is not surprising since Efim, with L18,000bn in outstanding debt and the livelihood of 37,000 employees at stake, constitutes the biggest voluntary liquidation in post-war Europe. Efim's odd assortment of activities range from aluminium smelting, armaments and helicopters to manufacturing mass transit systems, owning health spas and construction.

The sheer size and diversity of the group has complicated the operation. But despite the difficulties, the Italian authorities need to complete the liquidation successfully to offer convincing proof of efficient administration and a genuine desire to curb the dominant role of the state. Failure to do so will reflect on their ability to handle smoothly the ambitious privatisation programme, as many of the problems encountered are similar.

Among the more significant factors that have slowed and complicated Efim's liquidation are:

- **A crowded government agenda:** the Amato government and its successor, headed by Mr Carlo Azeglio Ciampi, have had their hands full first with a currency crisis, and then tackling the public sector deficit against a background of collapsing traditional parties.
- **Nationwide corruption scandals:** five Efim companies are implicated in kickback investigations, the most serious being Agusta, the lossmaking helicopter group, and Efim's finance subsidiary, Nuova Safim.
- **Bureaucracy:** three ministries have been involved (Treasury, Industry, and State Shareholdings), paperwork has been complex and liquidators have been hampered by the government as shareholder dictating policy via inflexible decrees, only alterable by fresh decrees. There have been four.
- **Recession:** the sharp decline in industrial activity, especially in defence, has caused constant adjustments in the liquidation plans, while rising unemployment has increased the social pressure to curb the level of job losses. Up to 40 per cent of Efim's workforce is regarded as surplus.
- *Inexperience:* liquidation has been an infrequent instrument, and Italy lacks both the juridical tools and the technical expertise.

An additional factor has been the comportment of Mr Alberto Predieri, the 72-year-old liquidator and a leading bankruptcy lawyer and former Olivetti board member. To the dismay of creditors, he has retained his consultancy in Florence, been difficult to contact and delegated extensively.

As a result, those affected by the Efim liquidation are exasperated and angry. "The liquidation of Efim is the greatest fraud ever perpetrated by a government in Europe," says Mr Giustino Bello, who acts as co-ordinator for 400 small and medium-sized Italian and foreign creditor companies owed more than L400bn.

"We are dealing with a state holding which a year after being put into liquidation has not paid a single small creditor, at least 30 of whom risk going under as a result," he claims.

The supplier creditors, owed L4,000bn, should have begun to be paid in early April. Last week the Ciampi government promised 30 per cent would be paid "rapidly". The small suppliers, lacking in muscle, remain sceptical and have initiated in Turin a court action to impugn the Efim liquidation decree, converted into law on February 17, as unconstitutional. They have also suggested that they be paid in the form of tax credits, discounts on VAT and relief on social security payments.

The banks, owed L8,800bn, are in no better a position. The Amato government badly damaged Italy's international credibility by failing to consult foreign or local banks in advance of the liquidation and by seeking to impose a two-year moratorium on what the banks assumed to be sovereign debt lodged with Efim and its subsidiaries. "The handling of this was the greatest error of my government," Prof Amato freely admits.

After a series of acrimonious encounters, the foreign bank creditors owed L3,500bn have obtained satisfaction on the terms of payment. But they have received no money because of the controlling veto of Brussels.

The closure, rationalisation and sale of the holding's companies was initially thought likely to cost L10,000bn-L12,000bn. However, the burden will be much greater, with interest charges at 13 per cent, the need for fresh capital to sustain viable company operations and the cost of shedding labour and almost certainly maintaining some companies beyond the programmed two-year liquidation timetable.

The Ciampi government is being obliged to allow some L4,000bn in 1994, according to those familiar with the liquidation process. They also say if all debts are to be honoured the ultimate cost could exceed L17,000bn, a figure that includes the offsetting income from asset sales.

Given that so much public money is involved, remarkably few questions have been asked about how the group was allowed to get itself into such a mess. The simple answer may be that Efim had been long regarded as a dustbin into which lossmaking industries were tipped and kept alive to promote political patronage with lavish use of state funds.

Efim was an emblem of the politico-economic system that embedded itself in Italy from the 1950s. Created in 1962 as an industrial hospital aimed primarily to sustain companies committed to expanding in the Mezzogiorno, Efim was loosely managed and politically manipulated from the outset.

As part of a political deal, Efim was allowed to be a Socialist fief, while IRI, the larger public holding, was in the hands of the Christian Democrats. Thus at the time of liquidation Mr Gaetano Mancini, cousin of the most powerful Socialist politician in the south, was chairman and his deputy was Mr Mauro Leone, a Christian Democrat and son of a former president of the Republic. Mr Leone was arrested in March on charges of fraud in connection with the running of Nuova Safim.

Breaking the political hold on Efim and reshaping the entire role of the public sector in the economy was Prof Amato's prime objective in liquidating the holding. Indeed, as a Socialist linked to the then leader, Mr Bettino Craxi, he saw getting rid of Efim as a demonstration of his own impartiality and concrete proof that the state was set to reduce its interventionist role in industry and would no longer underwrite lossmaking businesses.

Throughout the 1980s Efim's finances deteriorated, weighed down by losses in the aluminium industry (Alumix accounted for almost half the 1991 loss of L1,176bn) and the increasing crisis in the defence industry. But all the businesses were sustained by an unquestioning belief from suppliers, creditors and managers that the state was behind Efim.

"We thought it was gilt-edged dealing with Agusta: it was military helicopters, Euro-defence and state-owned," observed one disillusioned British supplier.

When it was placed in liquidation Efim was losing L37 for every L100 of turnover, and of the 120 companies only 33 were in profit. Mr Predieri commented recently: "All the others were running at a loss, many for years, despite attempts to massage their balance sheets to obscure losses."

As liquidator Mr Predieri has had to follow awkward twin paths of trying to satisfy creditors and guarantee the survival of those companies considered viable. Efim has some good assets like Efim Ferroviarie, the mass transit manufacturer. But the danger throughout has been to avoid the state being saddled with a rump of lossmakers that are seen as necessary to maintain, either because of their regional importance (like aluminium smelting in *Sardinia*) or because of their "strategic" nature, as with the seven defence companies.

This danger, plus job losses, will be the main issue in the coming months – provided creditors start getting paid soon and the dispute with the EC is resolved.

Disposal may signal revival of fortunes for large glassmaker

By Haig Simonian in Milan

PILKINGTON, the UK glass group, and Techint, the Italian-Argentine industrial concern, are this week expected to sign a contract to buy Siv, Italy's lossmaking glass producer. The deal marks the first big disposal in the year-long liquidation of Efim, formerly Italy's *third-biggest state holding company*.

Pilkington and Techint, advised by Schroders, the UK merchant bank, are paying L210bn (£88.9m) for Siv, which lost L61bn before tax last year. The price represents a substantial discount on the company's net asset value of about L300bn. However, the purchasers are taking on L250bn in debt.

Buying joint control of Siv will boost Pilkington's geographic and product range and narrow the gap with France's Saint Gobain, Europe's market leader in glass.

The Italian company is the biggest European producer of car glass, where Pilkington is relatively weak. The acquisition will also raise Pilkington's profile in Italy and Spain. Siv has two float glass lines and two car glass plants in Italy, and a third car glass operation in Spain. The company, which had sales of L670bn last year, has about 4,000 employees.

Its earnings have been hit by chronic overstaffing and the downturn in the European automotive sector. Talks on the sale were complicated by the need for agreement on redundancies at Siv plants, concentrated in the high-unemployment area of southern Abruzzo.

The deal involves 450 job losses, fewer than half those originally sought, according to Italian press reports. However, further job cuts are virtually certain over the long term.

The purchasers are expected to invest about L100bn in the next three years.

Pilkington joined forces with Techint, which specialises in steel and which has plants in Italy and Latin America, to improve its chances in the bidding process. In the end, however, the two partners were the only bidders. Techint is cash-rich and has already participated in a number of Latin American privatisations. It, too, has been keen to raise its Italian exposure.

Combined ownership may provide the boost needed to turn Siv around. While Pilkington has great expertise in glassmaking, it has little management experience in Italy. Techint is a stranger to glass, but has considerable management knowhow in the complex Italian market.

Dismantling Italy's lossmaking industrial giant

Efim, 1991	Sales L4,548bn	Employees 37,000	Loss L1,177bn

* Quoted company

Aluminium	Helicopters/aircraft	Defence equipment	Glass	Railway equipment	Plant engineering
Alumix (100%)	Agusta (100%)	Finanziaria* Ernesto Breda (53%)	SIV (95%)	Efimimpianti (100%)	Breda Costruzioni Ferroviarie (100%)
Sales L1,260bn	Sales L897bn	Sales L692bn	Sales L733bn	Sales L327bn	Sales L489bn
Employees 9,000	Employees 7,000	Employees 7,000	Employees 5,000	Employees 2,000	Employees 5,000
Loss L507bn	Loss L182bn	Loss L41bn	Loss L10bn	Loss L39bn	Earnings L2bn

A year of woe

- **July 1992** Rumours of possible liquidation mount as Amato government starts transforming Italy's big state entities into joint stock companies
- **July 16** Chairman and board of Efim resign
- **July 17** Government confirms Efim to be wound up. Five-stage operation includes issue of government-backed bonds to cover outstanding debts. Details of terms left open
- **July 19** Bank creditors seek urgent talks to clarify implications for creditors. Foreign banks accuse government of "unilateral rescheduling" at crisis meetings in Milan and London
- **July 27** Mr Alberto Predieri becomes special administrator of Efim
- **Aug 5** Government presents amendments to previous month's liquidation decree
- **Aug 13** New decree partly clarifies terms of Efim bonds and sets L4,000bn ceiling. Bankers furious about low interest rates, and inadequate information. London-based international banks threaten to declare Efim loans in default
- **Mid-Aug** Tense meetings between treasury and foreign bankers over early-Sept terms of bonds
- **Sept 9** Treasury bows to foreign pressure to raise interest rates on bonds
- **Sept 24** New figures show Efim's total debts are about L17,500bn - around twice previous figure
- **Sept 25** Italian government approves principle of selling Siv, Efim's big glass subsidiary, as first in planned sell-offs
- **Oct 19** Further government climbdown to bank creditors: new decree concedes full repayment of loans to all Efim's wholly-owned subsidiaries
- **Oct 25** Government sets out conditions for "renting" Efim's defence (Oto Melara) and helicopters (Agusta) subsidiaries to Finmeccanica, part of IRI state holding company
- **Dec 15** "Rental" contract to IRI for nominal L1 signed
- **Jan 19, 1993** Government raises to L9,000bn ceiling on Efim bonds
- **Jan 27** Mr Predieri says government promises to start repaying bank and trade creditors by April 30
- **March 8** Italy's Official Gazette carries terms for special treasury borrowing programme to raise funds to repay creditors. However, bankers grow worried about repayment as European Commission asks whether repayment represents unfair state aid
- **March 18** Rome magistrates issue six arrest warrants linked to fraud inquiry into Efim's Nuova Safim finance arm and its subsidiaries. EC Commission says Efim repayment plan constitutes unfair state aid
- **March 31** Treasury sets first six-months' interest rate on Efim bonds. No bonds yet issued
- **April 6** Mr Predieri says repayment frozen pending EC approval
- **April 26** Mr Predieri offers to resign following appointment of new Ciampi government
- **April 30** Initial repayments begin to small trade creditors; payments to bank creditors
- **June 16** Government "reaffirms its commitment" to honour Efim's debts fully
- **July 14** Government agrees to transfer Agusta and Oto Melara free to Finmeccanica
- **Late July** Sale of Siv to UK's Pilkington due to be signed

Crisis-hardened bankers tested by Efim hurdles

By Haig Simonian

BANKERS in Italy have this decade grown accustomed to an annual crisis.

First came the collapse of the Federconsorzi farm services group in 1991, then the liquidation of Efim last year. This year has brought new troubles with the rescue of Ferruzzi, Italy's second-biggest private company.

The involvement of the same big banks at the top of the creditors' list means the need to find fast, transparent solutions has become crucial to prevent embarrassing loan write-offs and lower profits.

Efim has proved easily the most complicated and, so far, frustrating of the three crises for bankers. Even by Italian standards, progress has been painfully slow, information uncommonly inadequate and the number of conflicting interests unusually complicated.

"I'm just about to write the fifth, sixth or seventh letter to the prime minister calling for urgent action," says Mr Guido Rosa, chairman of the Foreign Banks' Association in Italy and head of the local unit of France's Société Générale.

Mr Rosa, a veteran of Federconsorzi and now tied up in the Ferruzzi saga, has lost count of the letters he has sent on behalf of foreign bankers. Foreign banks account for about L3,500bn (£1.47bn) of Efim's L8,800bn exposure to financial institutions.

"The problem is communication," he says.

The bankers' first gripe is with Mr Alberto Predieri, one of Italy's most experienced liquidation lawyers and the special administrator put in to run Efim last year. Complaints range from allegedly excessive absences from the office to disapproval of his methods; "eccentric" is one of the more polite words used.

The European Commission runs Mr Predieri a close second. Its decision to block plans to repay creditor banks, on the grounds that the Italian government's proposal represents unfair state aid, places Brussels high in bankers' unpopularity stakes.

Bankers have also been enraged by a second strand in the Commission's argument: that they should have first asked themselves whether Efim was the recipient of illegal state aid before agreeing to lend it money. As some point out, opining on the legality of state funding is something the Commission should have done years ago, not the banks.

> 'I'm about to write the fifth, sixth or seventh letter calling for urgent action'

Italian Treasury officials are not free of criticism. Although relations between bank creditors – particularly foreign banks – and the Treasury have improved since confrontations last September, the climate remains unsettled. A three-hour meeting this month of about 120 bank creditors in London rekindled the idea of ostracising Italian borrowers in the international financial markets if matters are not settled soon.

It takes little provocation for bankers to recall the extraordinary confusion – virtually unprecedented for an advanced industrial country – last August and September when the Treasury issued three decrees within weeks, all of which left open more questions than they answered.

The first decree was the biggest bombshell: it implied creditors would only receive 80 per cent of the face value of their loans. Once over the shock, banks attacked the proposal as a "unilateral rescheduling", unimaginable from a member of the Group of Seven industrialised countries.

The Treasury could not have chosen a worse moment to antagonise the financial community, given the storm that was about to break in the foreign exchange markets. The decree provoked a stream of adverse publicity – some papers compared Italy to a banana republic – just when the authorities most needed the support and confidence of financial markets to keep the lira stable.

Although the government eventually climbed down and agreed to honour all the debts owed by Efim and its wholly-owned subsidiaries, differences were only partly resolved.

The next decree antagonised bankers further by setting the interest rates on the special bonds to cover Efim's borrowings at about half corresponding market rates.

The decision renewed threats to blackball Italian borrowers. It also signalled a tense period in which bankers considered using a legal technicality to put into default loans by some Italian state-owned groups being transformed into joint stock companies.

Relations between the government and the banks have thawed since, partly because of a greater willingness by Treasury officials to meet the banks. However, many foreign bankers are bitter over what they view as unprofessional conduct by the authorities. The severest criticism is levelled against the lack of detail about Treasury plans to repay lenders and delays in supplying information.

One foreign banker says some, who "knew Italy and understood the mentality", tried to explain it was unreasonable to expect anything better. "We recommended patience, as these things tend to sort themselves out in Italy in the end. But try explaining that to a Japanese or US bank which has no first-hand knowledge of Italian business."

The ill will explains why, even today, some bankers believe Rome is using the European Commission's opposition to repayment as an excuse to avoid compensating creditors. Mr Rosa thinks such a view is far-fetched, as the Treasury has already allocated funds for repayment and the total bill is mounting as accrued interest builds up. But some bankers are sceptical.

"The Treasury promised that repayments would start by the end of April. Then the Commission stepped in and everything came to a standstill. Now Treasury officials say matters are outside their control, while the situation in Brussels is confusing at best," says the head of one European bank in Milan.

Once the Commission's block is lifted, bank creditors will still have a string of grumbles. Foremost is that repayment should be extended to Efim subsidiaries which are less than 100 per cent owned by the parent company. The list includes important operations such as the Breda Costruzioni Ferroviarie railway equipment unit.

Bankers are also confused about how they will be repaid. Originally, the Treasury announced plans to issue special bonds, denominated in either lire or Ecus. This year, however, the Treasury's borrowing arm was cleared to embark on an international borrowing programme to raise funds to pay back creditors – implying that repayment would come in cash.

"It's totally unclear. No one understands anything about this," says Mr Rosa.

Mr Predieri also has a bone to pick with some of Efim's bankers. Some have decided unilaterally to terminate swap deals – which are complicated financial transactions based on arbitraging interest rates or currencies – for Efim and its subsidiaries.

The swaps, linked to foreign currency loans by the group, were terminated before their official maturity on the grounds of Efim's financial crisis. However, aborting the deals has raised the group's debts yet further in lira terms because of the currency's devaluation since the swaps were signed.

The banks are likely to be repaid eventually and some lessons are likely to be learnt along the way. But many bankers may by then be worrying about the next Italian crisis.

Rome plots survival course for defence industry

Finmeccanica is the key rescue vehicle, writes **Robert Graham**

ITALY'S defence industry is being slimmed down and reorganised as a result of Efim's liquidation, leaving the state with a strong centrally-controlled stake in the business.

Closure or sale to foreign buyers of Efim's seven defence companies would mean a drastic cut in Italy's indigenous armaments and aerospace production capacity. Efim's Oto Melara, Breda Meccanica, Officina Galileo and SMA, together with the three companies in the Agusta group, produce items ranging from missiles, naval artillery, light armaments and armoured vehicles to helicopters, jet trainers and radar appliances.

The combined annual turnover of L2,100bn (£889m) is equivalent to almost half the nation's current annual defence procurement budget.

Equally, with Efim's defence companies accounting for a third of the holding's workforce and nearly 20 per cent of accumulated losses, the hiving off of this activity has been an essential step in the liquidation process.

From the outset the previous government of Prof Giuliano Amato decided to ensure the survival of Efim's defence interests. The current administration of Mr Carlo Azeglio Ciampi has not altered this policy.

The path chosen has been to merge these defence interests with Finmeccanica, the high-technology and main industrial arm of IRI, the principal state holding company. Synergy exists, as Finmeccanica has extensive defence interests centred on aerospace through its Alenia subsidiary, whose programmes include the new European fighter aircraft. But against a background of declining defence procurement at home and abroad – plus the need to balance its own books and prepare for an approach to the stock market to raise capital – Finmeccanica remains a wary partner.

The group stipulated it could only assume Efim's defence portfolio if there was no financial charge, jobs were shed and plants rationalised, and the government announced a defence procurement programme which guaranteed orders that in turn provided insurance for production lines to survive.

In January a temporary solution was agreed: to lease the companies to Finmeccanica for six months, giving management but not financial responsibility.

Last Wednesday, two weeks behind schedule, the government forced Finmeccanica's hand, in effect decreeing the takeover. Government and Finmeccanica must now bargain over the company's demand that a minimum of L10,100bn is available over the next decade in procurement orders for these companies, and that 1,900 jobs are cut from the workforce of 11,729.

On this basis the Efim companies could begin to show a profit by 1995. However, big job losses, especially where accompanied by plant closures, will be contested by the unions, which have already won considerable concessions in the case of the restructuring of Finmeccanica's Alenia.

The key will be the future of Agusta, which has good helicopter technology in the EH101 venture with Westland of the UK but which lacks orders. It has also been poorly managed and its financial position is extremely weak, having lost L1,674bn between 1987 and 1991 and recorded a further L858bn loss last year – almost one lira for every lira received in sales.

Agusta has made the mistake of accumulating excessive stocks that totalled L1,600bn at the time of Efim's liquidation.

It will get about L400bn of the L1,068bn earmarked by the liquidators for the defence side of Efim. But this will be insufficient, and the company cannot afford to be in a weak financial position at a time of fierce international competition in the helicopter sector.

Hanging on the fate of Efim's defence interests are also a mass of private contractors who are the most vulnerable creditors.

THE FINANCIAL TIMES
Published by The Financial Times (Europe) GmbH, Nibelungenplatz 3, 60318 Frankfurt am Main, Germany. Telephone ++49 69 156 850, Fax ++49 69 5964481, Telex 416193. Represented by Edward Hugo, Managing Director. Printer: DVM Druck-Vertrieb und Marketing GmbH, Admiral-Rosendahl-Strasse 3a, 63263 Neu-Isenburg (owned by Hürriyet International). Responsible Editor: Richard Lambert, c/o The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL, UK. Shareholders of the Financial Times (Europe) GmbH are: The Financial Times (Europe) Ltd, London and F.T. (Germany Advertising) Ltd, London. Shareholder of the above mentioned two companies is: The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL. The Company is incorporated under the laws of England and Wales. Chairman: D.C.M. Bell.

FRANCE
Publishing Director: J. Rolley, 168 Rue de Rivoli, F-75044 Paris Cedex 01. Telephone (01) 4297-0621, Fax (01) 4297-0629. Printer: S.A. Nord Eclair, 15/21 Rue de Caire, F-59100 Roubaix Cedex 1. Editor: Richard Lambert. ISSN: ISSN 1148-2753. Commission Paritaire No 67808D.

DENMARK
Financial Times (Scandinavia) Ltd, Vimmelskaftet 42A, DK-1161 CopenhagenK. Telephone 33 13 44 41, Fax 33 93 53 35.

NEWS: INTERNATIONAL

Garofano admits funding ruling party

By Robert Graham in Rome

MR Giuseppe Garofano, the former senior executive of the troubled Ferruzzi group, has admitted that Italy's second largest industrial empire was illicitly funding the Christian Democrat party.

The revelation emerged after he had been interrogated by Milan magistrates for more than 13 hours over the weekend.

The interrogations followed an exceptionally swift deal between Milan magistrates and Swiss judicial authorities following Mr Garofano's arrest at Geneva airport on Tuesday after being on the run for six months.

The return of Mr Garofano, who stepped down as chairman of Montedison, Ferruzzi's chemicals group, in November 1992, promises to shed light on how the Ferruzzi empire has managed to accumulate debts of L31,000bn (£13bn). The debts plus heavy losses forced a consortium of banks to step in last month to salvage the group.

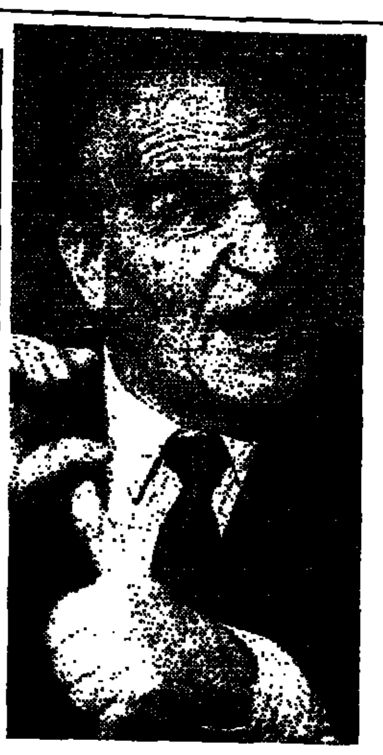
Among Mr Garofano's first admissions was that L250m had been paid to the Christian Democrat party in Lombardy from Ferruzzi-Montedison funds. Last September, when questioned by Milan magistrates, he had said this money had come from his own sources. It was on the charge of having provided this sum in illicit funding to the party that his arrest warrant was issued.

Milan magistrates believe the L250m represented only a small part of wider illicit funding. For more than six months the magistrates have been examining the dealings behind the reorganisation of the chemicals industry and Montedison's sale of its 40 per cent stake in Enimont to ENI, the state oil concern. Mr Garofano is understood to know about this transaction, as well as others involving Enimont minority shareholders.

The magistrates are also examining the circumstances behind the unexpected announcement last month of an extra L350bn loss in Montedison's 1992 accounts after the group had already announced a L1,244bn shortfall for the year.

Mr Garofano is due to be questioned again tomorrow. Meanwhile, Milan magistrates have decided to keep holding Mr Gabriele Cagliari, the former chairman of ENI, to continue their inquiries into the Enimont affair and other matters.

Mr Cagliari has been in jail since March 4 on charges of illicit financing of political parties and falsifying accounts.


Alija Izetbegovic: boycott

Izetbegovic demands end to Serb advance on Sarajevo

Bosnia threatens to boycott talks

By Laura Silber in Belgrade and Frances Williams in Geneva

MR Alija Izetbegovic, the president of Bosnia, yesterday said he would boycott peace talks in Geneva if Serb forces pressed forward with their assault on Sarajevo.

Bosnian radio said Serb forces breached defence lines in three places on Mount Igman, an important Moslem stronghold. Fighting was also reported in Hadzici, just west of Sarajevo, where UN officials spotted 16 Serb tanks last week.

The Serb advance is aimed at forcing Mr Izetbegovic to accept the republic's ethnic partition, which he opposes as a legitimisation of "ethnic cleansing".

In an interview with a Belgrade newspaper, General Ratko Mladic, Bosnian Serb commander, warned: "It is up to Alija and those who advise him to think what to do. I have left Sarajevo to the end."

Serbian and Croatian leaders, meeting in Geneva at the weekend, denied attempts to carve up Bosnia between them and said their proposal for a loose confederation of three ethnic mini-states was the only way to lasting peace.

In a statement after talks with Lord Owen and Mr Thorvald Stoltenberg, the international mediators for former Yugoslavia, President Slobodan Milosevic of Serbia and President Franjo Tudjman of Croatia said speculation on a two-way division of Bosnia was "unfounded".

The two presidents plan to return to Geneva tomorrow or on Wednesday if the mediators succeed in convening a new round of talks on a confederal peace plan for Bosnia involving all parties. The Bosnian Serbs and Croats support the plan and some members of the collective Bosnian presidency have said they are willing to discuss it.

But Mr Izetbegovic at the weekend reiterated that peace talks cannot take place while Serb forces tighten their stranglehold on Bosnian government targets. "We cannot go there if offensive activities in Bosnia continue, especially against Sarajevo," he said after talks with Mr Vitaly Churkin, Russian President Boris Yeltsin's peace envoy.

Mr Peter Kessler, spokesman for the UN High Commissioner for Refugees, yesterday accused local Croats of "inhumanity" and "sheer obstructionism". He said relief operations had "ground to a halt" after Croat fighters were blocking convoys from reaching about 1.1m refugees in central Bosnia for the second day running.

Meanwhile, Croatian President Franjo Tudjman yesterday formally re-opened the strategic Maslenica bridge, which joins northern Croatia with its southern Dalmatian coast, after Serb forces earlier in the day had shelled the area.

Mr Tudjman called yesterday's delayed opening a "great victory of Croatian politics" and a "big step" towards re-establishing Croatian control over its territory. The temporary pontoon structure, spanning the Maslenica canal, was due to replace the bridge destroyed in the 1991 war.

Croatia on Saturday endorsed an agreement, already backed by rebel Serbs, to demilitarise the bridge and place it under UN control by the end of the month.


Slobodan Milosevic: statement

New EC-compatible regulations brought into effect

Austrian retailers fiddle sell-by dates

By Ian Rodger in Vienna

AUSTRIA, the country that a few years ago shocked the world by lacing its wines with anti-freeze (ethylene glycol) has now taken to fiddling sell-by dates on packaged foods, especially meats.

It emerged last week that Austrian food retailers routinely take packets of sausages and sliced ham off their shelves when they reach their sell-by date and simply repackage them with a new sell-by date.

The practice seems particularly widespread in Tyrol, the heart of Austria's alpine resort region. Last September the national food testing laboratory made some routine tests of 29 specimens of packaged meats from supermarkets there and found that 20 were obviously older than the sell-by date indicated.

Processed meats repackaged by supermarkets

A further test in March revealed similar results.

What happened as a result of these tests is rather murky. The food examiners claim that they alerted Mr Michael Ausserwinkler, the health minister, of the abuses as early as October.

Mr Ausserwinkler, something of a health and fitness fanatic himself, claims he received the first indications of trouble only in April, but did not inform the public immediately because he wanted to gather material for a proper prosecution.

The legal position is also vague. The existing regulations, dating from 1973, permit repacking and redating foods, provided that they are not rotten. The practice of publishing sell-by, consume-by recommendations is only voluntary.

A new, tougher law, to bring Austrian practice into line with that in the European Community has been passed but the compulsory package labelling rules were not to come into force until the end of next year. Meanwhile, tests carried out in other areas of the country revealed similar abuses in Styria, Carinthia and Vienna and implicated all the main supermarket chains.

The Vienna tests of 148 samples revealed that 45 per cent of packaged meats were either rotten, dangerous to health or bore false labelling.

Mr Ausserwinkler has reacted by bringing the new EC-compatible regulations into effect immediately in respect of meat products. He has rejected calls for his resignation and won a full endorsement from Chancellor Franz Vranitzky on Friday.

Data published that day, however, indicated that the abuse extends to fish, dairy and bakery products.

Although the Austrian media have shouted outrage about the scandal, ordinary Austrians seem phlegmatic about it all. "No one has been killed or become ill," one Vienna businessman said with a shrug.

Bonn threatens to cancel air accord

MR Matthias Wissmann, German transport minister, said yesterday Bonn would cancel a 1955 air agreement with the US unless more access was granted to German carriers, writes Ariane Genillard in Bonn.

Mr Wissmann called on the US government to renew efforts toward "a fairer agreement".

He said Germany would otherwise cancel the existing agreement by September 15.

Mr Wissmann said on German television last night that the 1955 air traffic agreement "placed disadvantages on German carriers". He added that Lufthansa, the loss-making national carrier, was continuing to lose money on North Atlantic routes as a result.

Washington and Bonn have been in negotiations for more than a year, without reaching agreement, on a new air traffic agreement to replace the existing one, which is widely perceived in Germany as a relic of the post-second world war occupation.

Negotiations broke down earlier this year and an interim agreement is being used by both countries. Mr Wissmann said the interim agreement would continue to be valid if Germany went ahead with the cancellation but that the US would be forced to open new talks.

Virgin wins union battle in France

By John Ridding in Paris

THE British-owned Virgin megastores opened in France yesterday, following another victory in their battle to trade on Sundays.

A Paris tribunal on Saturday rejected a complaint by the CGT, the French union organisation, which demanded Virgin's Paris and provincial stores be closed for the day under the country's 1906 Sunday trading law. The tribunal said the complaint "could not be upheld in its current form".

The dispute arose after the government refused to renew a one-year "derogation" which had allowed Virgin to open its megastores on Sunday.

Virgin is appealing against the decision.

There are signs that, faced with rising unemployment, the French government may have sympathy with their cause. Mr Michel Giraud, the employment minister, said last week that he "was not hostile to an eventual reopening on the condition that it created jobs".

Last Friday Mr Patrick Zelnick, the chief executive of Virgin France, sought to convince the minister on this score, presenting a five-year plan for the training and recruitment of about 1,000 people. Virgin says that its Paris megastore receives about 20 per cent of its weekly sales on Sunday and that permission to trade on that day would allow it to maintain staff levels in Paris and to open more stores in provincial cities.

The CGT, however, continues to resist Virgin's bid for Sunday trading. Citing the support of the nation's small shopkeepers, the union's Paris branch has called for the public authorities to "take all the necessary actions to ensure respect of the law".

EC and Russia in aluminium trade row

By John Lloyd in Moscow

TALKS in Moscow have failed to resolve the growing the rift between the European Community and Russia over trade. The EC appears likely to restrict aluminium imports from Russia and other former Soviet states.

Such a move would choke off a market which has produced a flow of desperately needed hard currency.

The opening of the western European market to Russian goods has been identified by Russian President Boris Yeltsin as a key objective – but one which the Community has so far denied him.

Russia's key contention, underscored last week by Mr Gyorgy Gabunia, deputy minister for foreign trade, is that "we are no longer a command economy – we are a market economy. We want to be treated by the Community as a market economy – no better than others, but no worse."

However, for Mr Hugo Parmen, the senior EC official in charge of negotiations with the Russians, "it is obvious they are still a state trading country. They still have the remnants of a planned economy."

Russia has said it wishes to become a member of the General Agreement on Tariffs and Trade, which seeks to reduce or eliminate tariff barriers between members. Mr Yeltsin has said he wants Russia to be a member by the end of the year – an unrealistic demand of a body which takes at least two years to process an application, but evidence of the Russian desire to get in quickly. However, Russia has not yet submitted the memorandum necessary to begin the application process.

Mr Gabunia says: "We have one of the most open markets in the world – we have tariffs on practically nothing."

He instances particular restrictions against Russian goods – such as low ceilings on imports of cars into Spain and Portugal, shoes into Spain, and television sets and vodka into France. Mr Parmen agrees these restrictions exist but says they are strictly disapproved of by the EC and "will be removed".

The most crucial commodity is aluminium, though. According to EC figures, aluminium exports from the Soviet Union to the EC were running in 1989 at 147,000 tonnes while in 1992, the former Soviet states exported to the Community 529,000 tonnes (85 per cent of which came from Russia), an increase of nearly 250 per cent. At the same time, the EC aluminium market grew from 3.86m tonnes to 4.24m tonnes – an increase of only 14 per cent.

"The aluminium coming into the EC is being sold at very low prices," said Mr Parmen. "The European producers cannot possibly compete with it." He says that the Community does not want to introduce ceilings, but will be forced to do so if the exports are not cut.

Boycott threat looms over S Africa talks

By Patti Waldmeir in Johannesburg

SOUTH Africa's constitutional negotiations resume today under the threat of withdrawal by right-wing parties including the white-supremacist Conservative party and the mainly Zulu Inkatha Freedom party.

Both the Conservative party and Inkatha have said they will boycott today's talks, in a clear attempt to exert pressure on remaining negotiators, who are now drawing up an interim constitution.

Both parties have said that their participation in the talks will be conditional on the interim constitution: unless it provides for self-determination for Afrikaners, CP leader Ferdi Hartzenberg has said his party will permanently leave the talks. Chief Mangosuthu Buthelezi of Inkatha has threatened to launch a breakaway constitutional convention unless the draft constitution meets his demand for a federal state.

Such brinkmanship is probably inevitable, as constitutional negotiators reach the crucial stage of considering the draft of a new constitution for the next five years. The draft is being drawn up by a committee of legal experts and will be submitted within weeks to the multi-party negotiating forum. Today's talks are likely to be largely technical.

Inkatha walked out of the forum a fortnight ago, after a majority of parties fixed April 27 next year as the date for South Africa's first multi-racial elections. The Conservative party only made clear its decision to boycott the talks last weekend. The two parties are the leading members of the six-member Concerned South Africans Group. Some other members of the group are likely to participate in today's talks.

Within the next few weeks, Inkatha will have to decide finally whether to participate in the talks, in which Inkatha negotiators have already gained major concessions from the government and the African National Congress. They fear that Inkatha could launch a full-scale civil war in Natal province, where political violence has claimed thousands of lives since 1984, unless it is accommodated at the talks. But negotiators from the ANC and government have become increasing exasperated in recent days as Chief Buthelezi has appeared to reject these concessions, and repeatedly threatened to lead his own breakaway convention.

Inkatha negotiators say chances are good that their party will return to talks eventually. But the Conservatives, who demand a race-based state where non-whites would have inferior political rights, seem far more likely to withdraw permanently. The other 25 parties to the talks all support a multi-racial state with equal rights for all races, and are unlikely to accommodate the CP.

Estonia brushes off Russian vote for autonomy

By Matthew Kaminski in Vilnius

ESTONIA'S Russified north-east corner, smarting over the country's language and citizenship laws, at the weekend voted heavily in favour of regional autonomy.

Early results from Narva, the industrial border town, showed 97.2 per cent of voters in favour of territorial autonomy within Estonia, the Russian Itar-Tass news agency reported. Nearby Sillamae counted 98.6 per cent.

But the weight of the result may be diluted by the low turnout, reported to be 54 per cent in Narva.

The Estonian government issued a statement claiming that less than 50 per cent of registered voters had participated in the referendum. Under Russian law, and former Soviet law, a turnout of less than 50 per cent would make the referendum invalid.

But the Estonian government has anyway declared the vote illegal, and vowed to protect its territorial integrity.

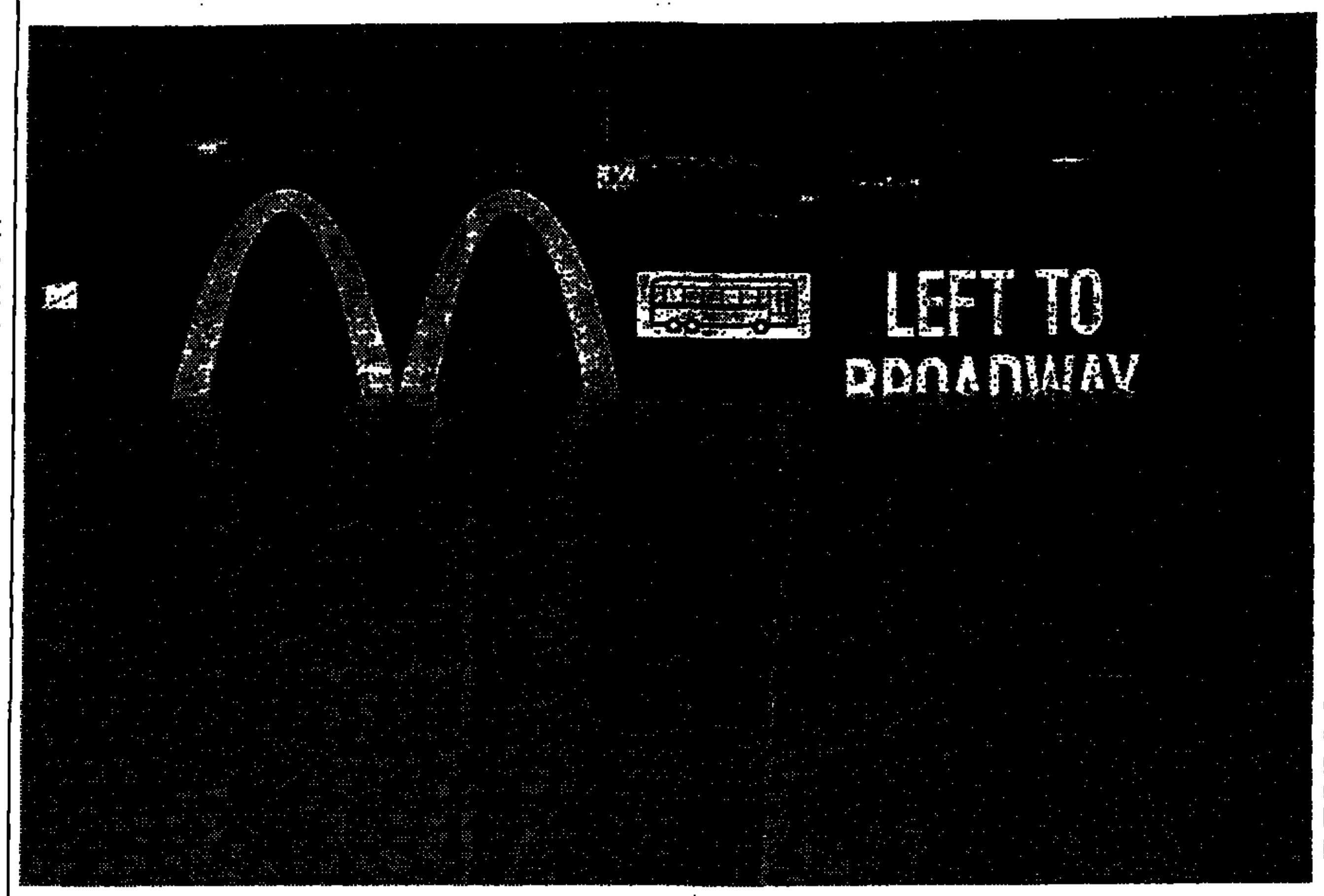
The referendum was called after the Estonian parliament passed an aliens law which many in the Russian minority consider discriminatory. The law was amended last weekend to meet concerns voiced by the Council of Europe and the Conference on Security and Co-operation in Europe, but Russian leaders dismissed the changes as cosmetic.

Mr Vladimir Chukhin, chairman of the Narva city council and organiser of the referendum, told Russian radio that the vote would at least force the Estonia government to negotiate with the Russian community, which accounts for 600,000 of Estonia's 1.6m people, over the aliens law.

The Russified region has always been part of Estonia.

● *Russia last week cut off oil* supplies to Belarus, the former Soviet republic which has kept close ties with Moscow, Lithuania's state news agency, ELTA, reported at the weekend. Belarus owes Russia Rbs72bn, despite a 50 per cent subsidy. Belarus paid Rbs10bn on July 15. Natural gas supplies to the three Baltic countries were cut off last month, but pipelines were opened once the states paid their bill.

Mississippi floods bite into Big Mac



Reuter

A McDonald's billboard in West Quincy, Illinois, submerged at the weekend after the Mississippi River broke through a levee protecting the only passable bridge along a 200-mile stretch of river from St Louis to Burlington, Iowa. Volunteers had struggled day and night for six weeks to maintain a sandbag barrier that was keeping open the Bayview Bridge to Quincy. But on Friday night the barrier gave way, and rushing water covered up to 14,000 acres including the entrance to the bridge.

Israel warns of Lebanon retaliation

By Julian Ozanne in Jerusalem

ISRAEL yesterday issued a clear and public warning it would strike against Arab guerrillas in southern Lebanon in retaliation for recent attacks which killed five Israeli soldiers.

"The Israel Defence Forces is ready with reinforced troops to defend the towns and residents of the north. It will act against those who hit its forces in the security zone," Mr Yitzhak Rabin, the prime minister, said.

After a long cabinet discussion Mr Rabin also admitted that Israel had heavily reinforced the large area it controls inside Lebanon in the past week.

Reports have suggested Israel has sent up to 1,000 troops – including a mechanised company – and 22 pieces of large artillery to bolster its existing force of 1,000 men and a 3,000-strong Israeli financed Lebanese militia in the zone.

Israeli airforce planes flew across the Lebanese capital Beirut yesterday and staged mock raids over the south. The fresh Israeli military activity followed an attack on an Israeli patrol in the zone on Saturday, which left two soldiers wounded and a Lebanese guerrilla dead.

Syria, blamed by Israel for the upsurge of attacks, said over the weekend any attack against Lebanon was an attack against Syria.

Clinton to dismiss FBI chief in perks row

By George Graham in Washington

MR William Sessions' six-month battle to hold on to his job as director of the US Federal Bureau of Investigation is expected to end this week with his dismissal by President Bill Clinton.

Mr Sessions, under fire since a Justice Department investigation in January accused him of misusing FBI perks and personnel, has so far refused to resign, maintaining that all the charges against him are answerable.

But after a meeting on Saturday with Ms Janet Reno, the attorney-general, it appeared that if Mr Sessions would not go gently, Mr Clinton was at last prepared to dismiss him.

Mr Clinton on Friday met Mr Louis Freeh, a federal judge in Manhattan and a leading candidate to head the FBI. Mr Freeh is a former FBI agent and federal prosecutor.

The wrangle over Mr Sessions' alleged ethical lapses has obscured a more profound struggle within the FBI, and the new director will have a hard task reasserting control over an agency which some critics say has disintegrated into a number of feuding fiefdoms and has failed to grapple with some of the US's most pressing crime problems.

One of Mr Sessions' demands has been that he should remain in office until his successor is confirmed by the Senate, thus denying the chance to serve as acting director to a deputy with whom he has been at loggerheads.

Some White House officials are sympathetic to Mr Sessions' denial of the charges against him, which include personal use of government cars and aircraft, and this may explain why Mr Clinton has been willing to wait so long to allow him the chance for a more or less graceful exit.

Whatever the truth behind the ethics charges, it has become clear that Mr Sessions' ability to serve as director has been considerably impaired.

Mr Sessions, appointed by President Reagan, is half way through a 10-year term of office, but can be dismissed by the president.

Zurich tries new fix for drugs problem

Ian Rodger reports on a Swiss initiative legalising the use of heroin

ZURICH has never been known as a centre for bargains, but starting next year a few selected heroin addicts will be able to get their fixes in the city legally for only about SFr3 ($1.90) a time.

The offer is part of the city government's latest initiative, unveiled this week, for dealing with its outsize and persistent drug problem.

The initiative is itself part of a three-year national study involving 700 addicts to provide evidence on the pros and cons of legalising hard drugs.

Switzerland has an astonishingly high rate of hard drug addiction, with an estimated 30,000 addicts, nearly ½ per cent of the 6.8m population. The phenomenon is generally attributed to disaffection from a stiflingly orderly society and to the country's very high level of affluence.

Zurich has long been the magnet for the country's addicts, notably because the city's socialist-green coalition government has favoured a liberal drug policy. It has stopped the police making arrests for minor offences and provided shelter and rehabilitation programmes for those in need. Since 1988, it has offered free needles to all to prevent the spread of Aids.

By the late 1980s, about 1,000 people were regularly congregating in Platzspitz, the once beautiful park behind the main railway station transformed into a ghastly scene of decline and death.

Platzspitz, or Needle Park, as it was sometimes called, also became a huge drug dealing centre, attracting mob dealers and hundreds of cash-and-carry customers from Zurich's rich suburbs. And, as the park was very close to the downtown business and shopping area, muggings, robberies and petty crime in the area soared.

The city's business community protested, eventually winning the council's commitment to close the park early last year.

City leaders then implemented a dispersal policy, sending non-Zurich residents back home and billeting local addicts in small hostels. But within days, the drug scene was reforming in an adjacent run-down neighbourhood, and efforts by the police to break it up were about as effective as trying to scare off pigeons from London's Trafalgar Square.

In the past few months, the scene has gradually moved to an abandoned railway station a few hundred metres from Platzspitz. Last month, police staged a surprise inspection and discovered that the congregation there was much the same as it used to be at Platzspitz.

Of the 931 people checked, only 178 were city residents. Most of the dealers were former Yugoslavs, many of them asylum seekers who, under Swiss law, cannot be expelled until their applications have been processed.

"Things have got worse," Mr Andres Oehler, the town council's spokesman on drug matters, admits. "The closing of Platzspitz has not had the hoped-for effect."

Mr Oehler says fresh attempts will now be made to disperse the non-resident addicts, and most of the residents will become involved in the planned new legal drug distribution programmes.

The city itself will set up a new treatment centre where it will supply 50 addicts with not only heroin injections and cocaine impregnated cigarettes, but also with counselling. A private charity will do the same for another 150 female addicts, most of whom earn their drug money from prostitution.

Mrs Emilie Lieberherr, head of the city's social services department, said the aim of the programme was to help the addicts survive, stabilise their physical and mental health and, ultimately, to get them off drugs.

Unfortunately, it will not help answer two key questions associated with hard drug liberalisation – whether more people would be attracted to drugs and whether the criminal problems associated with it would abate.

Mrs Lieberherr admitted that the programme was only "a drop in the ocean" in trying to solve Zurich's drug problem. But for the moment, it is all the conservative leaders of the federal government will allow.

Meanwhile, the city has finally completed cleaning up Platzspitz at a cost of SFr1.6m, much of it spent on sifting painstakingly through the earth in search of used needles that would be deadly for a crawling baby.

The park, which now has high grille fencing all around it, is open only from 11am to 2pm on Tuesdays and Thursdays. Drug addicts are not welcome.

NEWS IN BRIEF

Liberian civil war foes agree peace settlement

WARRING factions in Liberia and the Interim Government of National Unity announced at the weekend they had reached an accord on ending the long and brutal civil war in the west African state, Reuter reports from Geneva.

Officials of the three main groupings involved in the conflict said at the end of a week of negotiations that the accord would be formally signed by their leaders in Cotonou, Benin, on July 24.

The groups said sticking points remained, but they were confident that agreement could be reached on these over the coming week.

According to a communique signed by the three groups, a transitional government representing all the factions would be set up and a United Nations-supervised ceasefire would go into effect after next week's Cotonou signing.

Russia reinforces Tajik troops

Moscow sent military reinforcements to the troubled central Asian republic of Tajikistan at the weekend, where fighting between the government and its Moslem opponents threatens to involve Russia, Chrystia Freeland writes from Moscow. Russian officials called for revenge last week after the Tajik opposition forces, aided by seasoned mujahideen fighters from neighbouring Afghanistan, killed 25 Russian soldiers in a shoot-out on the Tajik-Afghan border.

Kabul accused Russia of mounting a retaliatory attack against Afghan villages close to the border in which they say more than 80 people were killed or injured.

Russian and Tajik officials deny the charges, but over the weekend top Russian military leaders vowed to crack down on the Tajik opposition, which, according to Russian Defence Minister Pavel Grachev is preparing a major offensive aimed at seizing the entire country.

Czechs and Slovaks in border pact

Slovakia and the Czech republic agreed at the weekend to set up joint patrols along their recently created common border, after talks at a summit meeting of the 10-nation Central European Initiative, writes Anthony Robinson in Budapest. Mr Vaclav Klaus, the Czech prime minister and Mr Vladimir Meciar, his Slovak counterpart, made the move to reduce the flow of illegal immigrants from eastern Europe who are barred by Bonn's new asylum laws from entering Germany.

Egyptian general escapes ambush

Moslem militant gunmen avenging 14 comrades hanged in the past five weeks on the orders of military courts ambushed an Egyptian army general's car in Cairo yesterday, Reuter reports from Cairo.

The general escaped unhurt. Police shot dead one of the attackers after he hijacked a taxi and passers-by seized two of the other gunmen and handed them over to police.

NEWS: THE JAPANESE ELECTION

Liberal Democrats lose their majority for the first time since 1955

Mould cracked but not yet broken

By Charles Leadbeater in Tokyo

JAPAN is embarking on a period of political restructuring without precedent since the end of the second world war, when the merger of two pre-war parties gave birth to the Liberal Democratic party, which has ruled since 1955.

The 1955 mould of post-war Japanese politics was not broken by yesterday's general election but it was cracked, possibly permanently.

It is too early to say that the new conservative parties which were the main winners yesterday will provide the Japanese public with a new choice, as permanent alternatives to the ruling Liberal Democratic party and the socialist opposition.

But the new parties – the Japan Renewal party, Japan New party and Harbinger party – did well enough to hold the balance of power in the next parliament, to press for political reforms and to lay the foundations for becoming an independent third force at subsequent elections.

Their success reflects more than disaffection with the scandal-ridden LDP and disillusion with the impotence and ideologically hidebound nature of the older opposition parties.

It stems from an appetite for change, which has not been entirely extinguished by the cynicism forced on voters by repeated political scandals. Younger, independent urban voters crave not just new party labels and leaders, but a more open style of politics, which deals in debate and ideas.

Yet it is far from certain that is what they will get.

Even though the LDP has lost its overall majority in the parliament's lower house, it delivered a telling display of electoral resilience. It maintained its strength in spite of its failure to introduce political reforms, the worst economic downturn for 20 years, a deeply unpopular prime minister, and rumbling scandals which are due to surface in court again this week.

As Japan moves into a possibly extended period of coalition government, the LDP is likely to be the largest party and so the central building block for any coalition. The endless war within the party, between its factions for positions and patronage, will be complicated by jostling between the LDP and its potential coalition partners.

The scope for Japanese politics being decided by shady deals in smoke-filled hotel rooms has probably grown as a result of this election, not diminished.

Hopes that the election could set in train sweeping and lasting changes in the Japanese political system rest with two developments.

First, the next government is almost certain to focus on political reforms. These are likely to include changes to the electoral system involving the introduction of proportional representation, designed to encourage more open debate about national policies and priorities. Political reform will throw the system into a protracted period of turmoil as parties adjust to the unfamiliar rules.

This flux should be advantageous to the new conservatives who will enter the next election with more money and candidates.

Second, much depends on the vision and determination of the new parties' leaders. They have established an impressive electoral beach-head, which will attract further supporters and donations from the business community.

But to extend beyond that to become a viable alternative to the LDP will be long, hard work.

The collapse of the socialists' support has probably robbed the Japan Renewal party of the hopes it had a month ago of leading an opposition coalition to dislodge the LDP.

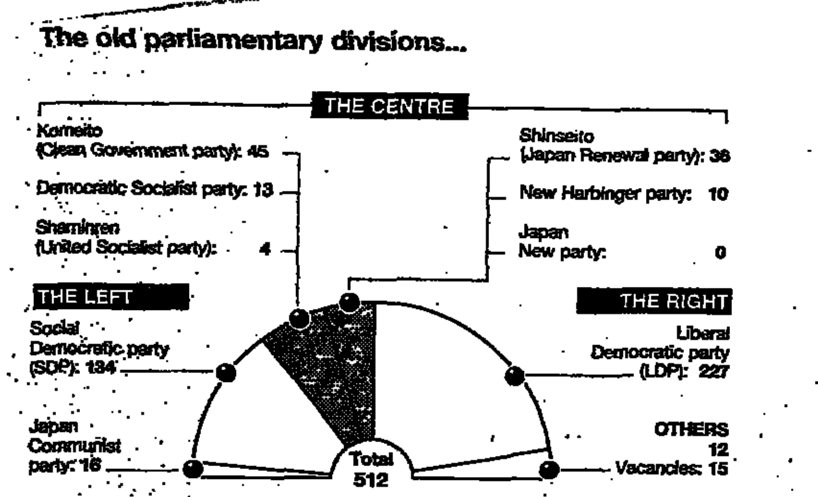
The LDP's resilience means the new conservatives can harbour few hopes of winning seats from the ruling party. They will grow quickest at the expense of their erstwhile partners, the ailing Social Democratic party.

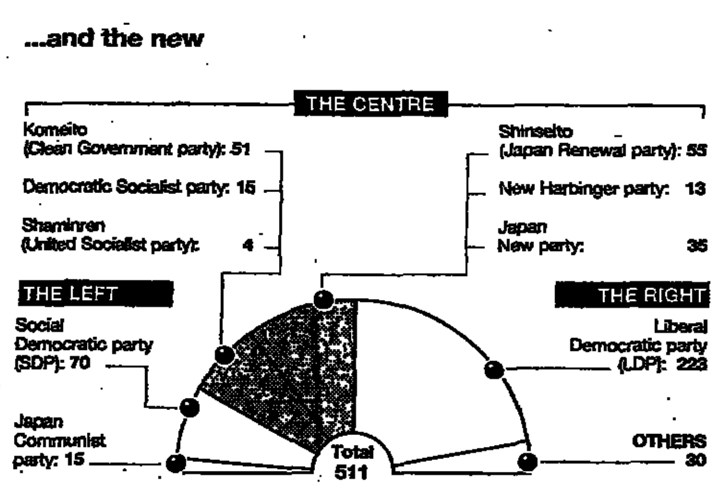
So this election could set the scene for an intensifying battle within the opposition, rather than between the opposition and the LDP. The balance of power within the opposition will have to shift, away from the left and towards the centre, before the LDP will face a credible challenge from an alternative coalition.

Yet today the leaders of the new conservative parties will not be worrying over such distant doubts about their prospects. The LDP may not be turfed out of power; it will almost certainly have to share power for the first time for almost four decades.

Flushed with their success the new conservatives know that in spite of the LDP's size, they will be setting the pace in Japanese politics.

選挙 Japan votes for a measure of change





Voters inspired to stay at home

By Emiko Terazono in Tokyo

VOTER turnout for yesterday's general election fell to a near record low, suggesting that the political fervour of the campaign was not enough to inspire some Japanese to make a trip to the polling stations.

Before the election, the furore over the fall of the government seemed to heighten interest among the electorate. However, only an estimated 67.2 per cent turned out to the polls. The figure is 6 percentage points lower than the previous election in 1990 and 5 points lower than the average of the past 18 elections.

While some analysts blamed a televised sumo final and bad weather, the lack of issues directly concerning the ordinary voter is seen as the main reason for the low interest. Calls for political reform dominated the platforms of most parties, and some voters seemed to be turned off by the absence of debate over issues such as tax reform and the controversial dispatch of Japanese troops to United Nations peacekeeping operations.

Polls taken just before the election indicated that 43 per cent of the electorate had not decided who to vote for. The new reformist parties which have splintered from the ruling Liberal Democratic party has confused many voters.

Apathy was most prominent among urban voters, with the turnout around or below 60 per cent in Tokyo and surrounding areas such as Chiba and Saitama. In contrast, rural Japan, which has a high proportion of faithful LDP supporters, saw a large turnout. Over 77 per cent visited the polls in Shimane, the constituency of Mr Noboru Takeshita, a former prime minister.

Leaders get ready for horse-trading

Robert Thomson looks at prospects good and bad for the parties and the people

JAPAN'S political leaders, old and new, were counting heads early today in preparation for the horse-trading that will determine the shape of the next government. With the Liberal Democratic party having lost its majority, leaders were deciding whom they would back in a coalition and at what price.

For the old leaders, the poor results may force resignation. Mr Kiichi Miyazawa, the LDP leader, apologised for having brought distress to the party, while Mr Sadao Yamahana, head of the Social Democratic party, the largest opposition party, saw half of his MP lose their seats and was "contemplating" his political future.

Meanwhile, Mr Tsutomu Hata, head of the Japan Renewal party, and Mr Morihiro Hosokawa, the Japan New party leader, suddenly find themselves with the power to create a government. If the two parties join forces, along with the SDP and other opposition partners, they will have the numbers to force the LDP into opposition for the first time since 1955.

LDP officials were hoping that Mr Hosokawa, who has kept his intentions vague, will join it in a coalition in return for a senior post in a new government. After noting that the LDP will not be able to form a government, Mr Hosokawa said: "I will have to consult my members before making a decision."

Mr Hata, whose defection from the LDP prompted the election, said he would not rejoin the party, though some JRP officials have indicated that, if made prime minister, Mr Hata might accept a coalition with the LDP or the SDP. Whichever way he turns, Mr Hata may find his time at the top is short.

The arithmetic is made more complicated by the possibility of further splits from the LDP or a break-up of the SDP. By law, parliament has to convene within 30 days, giving leaders the luxury of time in mixing and matching the nine main parties in the quest for a majority of the 511 seats.

The Japanese constitution says that an extraordinary parliamentary session to elect Japan's next prime minister must be called within 30 days of the general election, writes Emiko Terazono.

Extensive negotiations between parties to decide on details of a new coalition may take up to a month, preventing the Diet from convening before the August 16 deadline. It has usually taken more than 18 days for parties to convene the past 16 special parliamentary sessions following general elections.

After the special session is convened, there is no time limit for the election of the prime minister. In 1979, the session took a record eight days to elect Mr Masayoshi Ohira because of friction within the Liberal Democratic party.

Smaller opposition parties were being cagey. The Democratic Socialist party, with 15 members elected, had offered support for the SDP and JRP in a coalition, but last night hinted that it would back the LDP.

The generally isolated Japan Communist party, also with 15 members, could also find itself being courted for an opposition coalition.

The prospect of a coalition including the left-wing socialists and the relatively right-wing JRP, with the communists thrown in to make up the numbers, gives an indication of the potential instability in coming months. Yesterday's election has set the scene for the next one, expected within a year.

If the LDP again takes office, it could be brought down by the opposition parties in coalition. The JRP, which did not have enough time to recruit candidates this time around, is already preparing for the next election, when it will have many more than the 69 representatives who stood yesterday.

The results suggest that Japanese politics have changed irrevocably, and yet the battered structure could return to its old shape.

One of the new parties could join forces with the LDP, as has happened in the past, and public anger over political scandal could fade, leaving a dominant LDP surrounded by a clutch of directionless opposition parties.

LDP officials, knowing their party would lose its majority, were generally hopeful that the election has allowed voters to express their anger. The theory is that the party will recover lost seats at the next election, as the newer parties will no longer be able to campaign only on the issue of "reform" and will be forced to detail policies on such divisive issues such as foreign policy and taxation.

Having successfully presented themselves as an alternative to the SDP, the newer parties, the JNP and JRP, must next prove that they are an alternative to the LDP, which they have not yet done. Most of their votes have come from the SDP, which gained in the past from disgruntlement with the LDP but which has been content with its role as an opposition party never likely to rule.

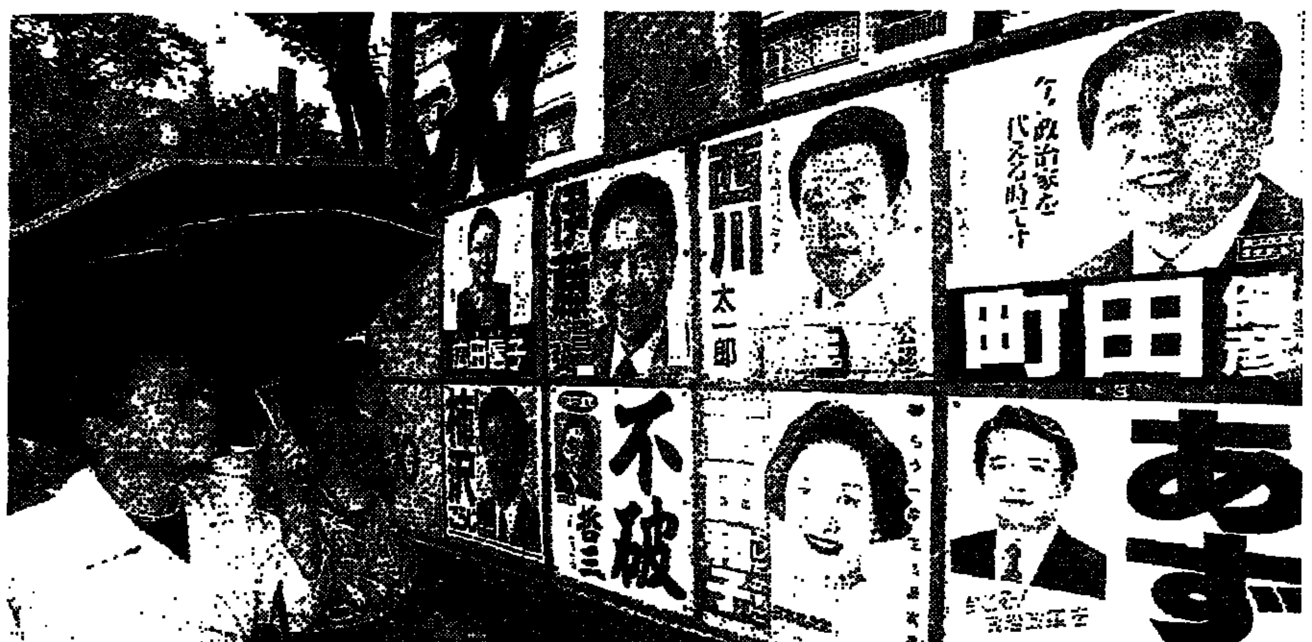
The form of the new government is likely to be determined more by personalities than by policy or ideology.

The resignation of Mr Miyazawa will make it easier for one of the opposition parties to join the LDP in a coalition, as exit polls yesterday suggested that 85 per cent of voters want him to resign.

A likely successor is Mr Toshiki Kaifu, a former prime minister with a reputation as a reformer. He was dumped by the LDP two years ago after suggesting reforms to the electoral structure, the issue which triggered the election last month. Officials at the JRP and JNP have suggested that Mr Kaifu is preferable to Mr Miyazawa, but have not given commitments of support.

The appointment of Mr Kaifu as head of a coalition will not necessarily bring stability or reform. Like Mr Miyazawa, he does not have the support within the party to demand that other factions do his bidding.

Mr Kaifu is seen by the heads of the LDP's larger factions as a socially acceptable leader capable of guiding the party through political turbulence – and back to the good old days, when there was an orderly queue for the prime ministership.



Voters look at candidates' posters before entering a Tokyo polling station Reuters

End of an era as the heavyweights clash

A confused electorate finds sumo wrestling more clear-cut than politics. **Robert Thomson** looks on

GATHERED around an over-sized video screen in the Ginza shopping district, several hundred people watched and gasped yesterday as the spectacle of battle unfolded before them, certain that, whatever the outcome, Japan had entered a new era.

Instead of the white gloves of campaigning politicians, the combatants on the screen wore the scant *mawashi* of the sumo wrestler, as the finale of a national tournament was played out by three contestants, one of them American, who are symbols of the passing of the old order in Japan.

At least the outcome of the sumo tournament was clear: the American, Akebono, won.

When Japanese went to bed last night, they knew the Liberal Democratic party had lost its majority and the largest opposition party, the Social Democratic party, had been humbled, but they didn't know who was running the country.

"I don't care who is the leader, as long as the LDP is punished," a young man watching the sumo explained. But a nearby young woman said all she wanted was the replacement of Mr Kiichi Miyazawa as prime minister: "That's the most important thing."

The confusion and the conflicting opinions have been stirred by the rise of two parties, the Japan New party and the Japan Renewal party, a former faction of the LDP, which has a large share of the balance of power.

Mr Tsutomu Hata, the JRP leader, shared an ailment with the leaders of the parties with which he may form a coalition government. They had cracked, hoarse voices after two weeks of the constant speechmaking and loud hailer-shouting that is campaigning in Japan.

"I'm very happy that the people have given us such support," rasped Mr Hata. But the JRP leader, who prides himself on his straight talking, was as vague as other party leaders when it came to describing the likely form of the new government: "There will need to be a lot of discussion."

Before the discussion started, the rumours circulated. An opposition party leader who had promised to form a coalition with the JRP was talking openly of joining an LDP-led coalition government. The JNP was said to be swinging both ways, towards a partnership with the JRP and with the LDP.

With the politicians being politicians, the sumo wrestlers had a drawing power of their own yesterday. A record low voting turnout, estimated provisionally at 67 per cent, was partly blamed on apathy, partly on the miserable weather, and partly on the attraction of the sumo.

How candidates fared

NOBORU TAKESHITA: THE 'PURIFIED' EX-PM

Old ways die hard in the most conservative regions of Japan. Mr Noboru Takeshita, former prime minister, was re-elected yesterday at the top of Shimane's list of candidates, with over 100,000 votes.

For many Japanese, Mr Takeshita symbolises the corrupt ways of the country's politics.

He was forced out of office after being linked to the Recruit stocks-for-favours scandal in 1989 and, more recently, public criticism mounted after revelations of his links to gangsters.

However, among his electorate, he remains the pride of Shimane, a rural prefecture in western Japan.

The region lacks any big industries and is sparsely populated but, thanks to Mr Takeshita, has the most public works spending allocated per capita.


Takeshita: forced from office

His supporters will consider Mr Takeshita's victory as a "purification" after all the scandals.

YURIKO KOIKE: THE TELEVISION STAR

Ms Yuriko Koike, star of television and the Japan New party, was elected comfortably, as was Ms Takako Doi, the former Socialist leader, both in the western constituency of Hyogo. Ms Koike is likely to be the deputy parliamentary head of her party, while there were calls last night from within Ms Doi's depleted party for her to return as SDP leader.

Both MPs say they support "political reform", but differ on its meaning. Ms Doi would like her party to reform, though she was unwilling to change some of its cherished but unpopular foreign policy and unable to draft an alternative economic policy.

Ms Koike wants electoral boundaries to be redrawn, making politics less expensive and less prone to financial scandal, and an overhaul of parliamentary style, saying "there's no real debate in the parliament".

MAKIKO TANAKA: THE HEIRESS

Japanese politics is a family affair, with seats often left to sons, daughters and even to a son-in-law. Ms Makiko Tanaka is the daughter of Mr Kakuei Tanaka, a former prime minister and a founder of the Liberal Democratic party's largest faction, the split of which led to the fall of the Miyazawa government.

Makiko Tanaka stood and won in her father's old electorate of Niigata, having announced her candidacy at the family's bus company, Echigo Kotsu, which has been assisted by the many new roads and bridges built in Niigata during the reign of the scandal-stained Mr Tanaka.

With her father's political support group officially disbanded, Ms Tanaka rounded up the remnants, and stood as an independent, as local LDP officials opposed her candidacy. Her success, she says, was due to "the continuing respect for my father" and to support for "my concerns for ordinary people".

NOBUTERU ISHIHARA: JAPAN SAYS YES

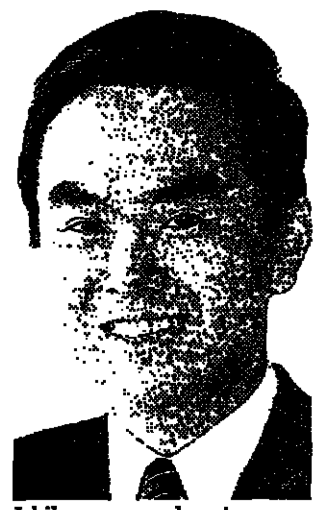
After an uphill struggle Mr Nobuteru Ishihara, the LDP's youngest candidate, was re-elected in one of the country's most hotly contested constituencies.

Mr Ishihara is the son of Mr Shintaro Ishihara, former transport minister and co-author of A Japan That Can Say No.

Mr Ishihara junior was one of the 12 candidates competing for five seats. The constituency in central Tokyo has a youthful and shifting population and is fickle in its political choices.

However, using the celebrity links of his uncle, Mr Yujiro Ishihara, a movie star who passed away seven years ago, he has managed to capture the electorate.

Nonetheless, the district's tendency to vote in line with overall trends has hurt the Social Democrats, who lost two seats.


Ishihara: son and nephew

His outspoken father was also re-elected, coming in first in his constituency.

HARA: BACK AT 86

Mr Kenzaburo Hara was told by LDP officials that, at 86, he should make way for a younger candidate. But Mr Hara, celebrating 50 years in politics, was determined to be elected for a 19th time.

With the help of his family members, who prostrated themselves at public gatherings to demonstrate their humility, and with the assistance of his old friends in the construction industry, he managed to muster the votes he needed.

TSUKAMOTO: DESERTED

Mr Saburo Tsukamoto, former chairman of the Democratic Socialist party, was another victim of the rush of votes to new reformist groups and, it seems, of links to scandals present and past.

Mr Tsukamoto said he had expected a tough election race, thanks to scandals involving DSP municipal representatives. Mr Tsukamoto himself was forced to resign from party chairmanship in 1989 because of his involvement in the Recruit scandal.

TAKAO FUJINAMI: THE LOSER

Mr Takao Fujinami, a former chief cabinet secretary on trial for alleged bribe-taking, had said his re-election would be proof that local voters thought him innocent.

Mr Fujinami yesterday lost his seat in Mie prefecture, in central Japan.

He was elected in 1990 even though he had been indicted after the investigation into the Recruit stocks-for-favours scandal, for which he was seen as the politician taking the punishment on behalf of his party, the LDP. This time, standing as an independent, Mr Fujinami failed because his old party unsympathetically put two strong candidates against him.

But the Fujinami name will survive in Mie. His family is famous for making sweet bean dumplings, which have the brand Rikyu in honour of a tea ceremony master. After the scandal broke, the locals started calling them Recruit dumplings.

Profiles by Robert Thomson and Emiko Terazono

US and Vietnam in accord on MIAs

By Iain Simpson
in Ho Chi Minh City

A HIGH-LEVEL delegation from the US has left Vietnam with an agreement to base three State Department officials in Hanoi. They will be the first US diplomats in Vietnam since the end of the war in 1975.

The agreement was reached after three days of talks in Hanoi with ministers and other senior Vietnamese officials. The diplomats will work with US military personnel in Vietnam searching for evidence on the fate of servicemen listed as missing in action (MIA).

For Vietnam, Deputy Foreign Minister Le Mai said his government has accepted the proposal, although he said some technical questions had still to be resolved.

Mr Winston Lord, the US assistant secretary of state who led the delegation, stressed the three officials would be in Vietnam strictly to work on the MIA issue. However, Vietnamese officials said privately they hoped the move would make diplomatic exchanges between the two countries easier and lead to a gradual improvement in relations.

The US delegation said the diplomats would also "support American citizens, including families of our missing and the Vietnam veterans who have been invited by the Vietnamese government to visit Vietnam".

President Bill Clinton ordered the US delegation to Vietnam to assess local co-operation in the search for MIAs. Hanoi says it is already doing all it can, but many Americans are not convinced and Mr Clinton has said there must be tangible progress on the issue before relations between the two countries can be normalised.

Mr Lord and his colleagues said at the end of their visit that they were pleased with the assurances they had received. However, the four representatives of Vietnam war veterans' groups in the delegation said they would not be convinced until they saw some concrete results.

The Vietnamese government believes that, with US diplomatic representation in Hanoi and with Mr Clinton's recent decision to unblock international lending, the process of normalisation with the US has taken a big step forward.

Vietnamese officials are now hoping for the US trade embargo to be lifted. This comes up for renewal on September 14 and Mr Clinton is under pressure from US business interests to let them into Vietnam.

Central bank action boosts Chinese yuan

By Lynne O'Donnell in Beijing

THE Chinese yuan rose 18 per cent against the US dollar last week after the central bank poured more than $100m (£66.6m) into the money market.

The yuan closed on Friday at Yn8.65 to the dollar; last month it had been trading at almost Yn11 to the dollar at China's semi-official swap centres.

Chinese efforts to encourage people to save with banks, rather than concealing money at home, is paying off. Banks say that since interest rates on savings and fixed-term deposits were lifted on July 11 they have been so overwhelmed that hours have had to be extended.

Lending and deposit rates were lifted by an average 1.38 and 1.72 percentage points, and the one-year fixed-term deposit rate moved up to 10.98 per cent in an attempt to encourage cash-strapped companies to repatriate hard currency to obtain yuan liquidity.

The interest rate increase was in tandem with a nationwide campaign to attract greater savings deposits from the population, historically suspicious of state financial institutions and believed to be hoarding millions of yuan in tea caddies and mattresses. China has recently admitted that banks are short of cash.

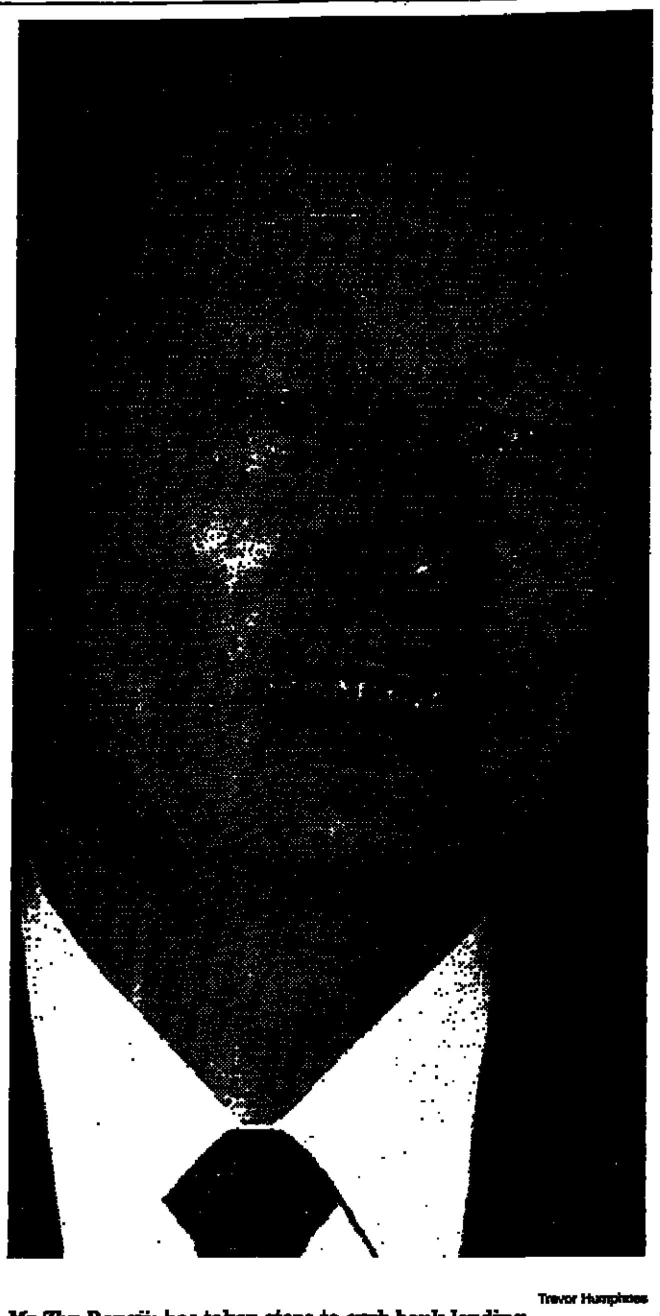
The Beijing branch of the Industrial and Commercial Bank of China had its busiest day on record the day rates went up, according to the official China Daily newspaper, when new savings hit Yn61m (£7m).

The interest rate rise was one of the first steps taken by Mr Zhu Rongji, senior vice-premier, when he took on the extra role of governor of the Bank of China. In an attempt to cool the overheating economy and control inflation now running at 20 per cent in urban centres, Mr Zhu has taken steps to curb bank lending.

Meanwhile, the Hong Kong-based Ming Pao Daily News said the central bank was determined to strengthen the yuan to Yn8.3 to the dollar "and will pay any price for it".

Quoting a Chinese finance official, the pro-Beijing newspaper said China aimed to achieve its target rate within the next six months – which would bring the yuan one step closer to the final target value of Yn8 to the dollar.

The black market price remains at about Yn9 to the dollar, while the official rate is Yn5.7 to the dollar.



Trevor Humphries

Mr Zhu Rongji: has taken steps to curb bank lending

Row over peacekeeping in Somalia shifts to diplomacy

Italy and UN in temporary truce

By Robert Graham in Rome and Ariane Genillard in Bonn

THE row between Italy and the United Nations over the conduct of peacekeeping forces in Somalia shifted over the weekend from public posturing to quiet diplomacy.

The differences are to be discussed at a meeting on July 27 between Mr Boutros Boutros Ghali, UN secretary-general, and Mr Bruno Bottai, director-general of the Italian Foreign Ministry. Until then all parties are expected to observe a cooling-off period.

The decision to hold a top-level meeting with the UN secretary-general followed urgent talks on Friday in Mogadishu, the Somali capital, between Italian diplomats and Admiral Jonathon Howe, Mr Boutros Ghali's special envoy, General Cevik Bir, the Turkish commander of UN forces, and US diplomats.

Neither side was willing to comment on the talks – in contrast to the mutual criticism traded earlier between the UN and the Italian government. The sole outcome was the formal announcement of the July 27 meeting.

Mr Koffi Annan, in charge of all UN peacekeeping operations, had called for the removal of General Bruno Loi, commander of the 2,600-strong Italian contingent in Somalia, claiming he had defied UN orders.

Differences between the two sides to be discussed on July 27

The Italians gave their backing to Gen Loi, refused to call him home and reiterated their criticism of the way UN operations in Somalia had shifted from a peacekeeping and humanitarian role to enforcement. They feared this risked turning the UN force toward an unwelcome occupational role, with its impartiality surrendered by the US-sponsored call to outlaw General Mohammed Farah Aideed, the principal Somali warlord.

From Mogadishu, Reuter reports that Italian troops clashed yesterday with Somali gunmen at a checkpoint in the capital.

Italian sources said gunmen who had hijacked a bus opened fire when the vehicle was stopped and the Italian troops shot back.

A Somali man and a woman were wounded, apparently by fire from the gunmen, the sources said.

Meanwhile, in Germany leading politicians within the ruling coalition began to question German involvement in Somalia just as 250 soldiers prepared to join peacekeepers there.

Speaking in the Cologne-based Express newspaper, Mr Karl Lamers, spokesman for the foreign affairs committee of the Christian Democratic parliamentary group, said a clarification of the UN mandate in Somalia was urgently needed.

Mr Lamers, who has been a strong advocate of German participation in UN missions outside Nato, said "if the UN mandate is not clarified shortly, a new situation would appear in which the withdrawal of German soldiers would become necessary".

In an interview in Die Welt published today, Mr Klaus Kinkel, foreign affairs minister and member of the Free Democrats, the junior party in the coalition, added that the situation in Somalia should be continuously examined to see if the politically agreed conditions for German involvement had not changed. However, he added German soldiers should not withdraw "when the first difficulties arise".

The federal constitutional court recently approved German participation in UN peacekeeping missions in Somalia after the government coalition said the soldiers would be kept out of particularly dangerous zones.

Russian space stance irks Delhi

By Shiraz Sidhva in New Delhi

INDIA has expressed regret at Russia's decision to freeze a $350m (£233m) contract to supply cryogenic rocket engines and associated technology for India's civilian space programme but emphasised that it would cause no setback.

Foreign ministry officials expressed dismay that Russia has "yielded so blatantly to US pressure" to go back on its 1991 contract with India but a ministry statement at the weekend avoided direct criticism of the US. "While India remains willing to co-operate with other countries in the space sector for mutual benefit, it will continue to develop the required technologies indigenously," it said.

Mr Dinesh Singh, India's foreign minister, told a parliamentary committee meeting on Saturday night that, though he did not see "an overall shift" in US policy towards India, the US's decisions would be based "on their self-interest as they see it".

Mr Michael McCurry, US state department spokesman, said Moscow's co-operation in blocking the transfer of "significant" technology to India about which the US "had concerns" could be "worth billions of dollars".

Dr Raja Ramanna, former head of India's Atomic Energy Commission, challenged the US position that the transfer of cryogenic technology was a violation of the Missile Technology Control Regime (MTCR). "Everyone knows that cryogenic engines cannot be used for defence purposes, and I cannot understand why such a powerful country [like the US] should feel so insecure about India getting some knowhow," he said.

Economists urge further India reform

By Alexander Nicoll, Asia Editor

THE benefits gained by India from economic reforms already undertaken may be meagre unless they are followed by further steps to complete the transformation of economic policy, according to a new report.

The report's authors – Mr Jagdish Bhagwati, professor of economics at Columbia University, and Mr T N Srinivasan, professor of economics at Yale University – strongly support the reforms introduced by Finance Minister Manmohan Singh, who commissioned the report. But they say that increases in productivity and exports may be small without additional measures.

Among reforms they recommend are further cuts in the budget deficit by widening the tax base, using privatisation proceeds to retire government debt and cut interest costs, and ending financing of the deficit through the banking system.

The government promises to restructure the tax system but, because of political sensitivities, has not yet embraced full privatisation of public sector enterprises and has only partially reduced the funding demands it makes on banks. It plans reform of the financial sector for which, the economists say, "the need can hardly be over-emphasised".

In industry, the report notes that bureaucratic restrictions remain even though the government has swept away the need for official licensing of corporate decisions. "State-level restrictions continue largely in place and need to be removed if delicensing is to amount to much," the professors say.

Imports should be further liberalised and tariffs reduced and unified, although these measures should be balanced by new mechanisms to deal with dumping and "import surges".

To encourage foreign investment, India must join trade blocs and should accept a compromise with the US and other industrialised countries on intellectual property rules. "Multinationals now treat the acceptance of such rules as an index of the seriousness of a country in attracting direct foreign investment," the economists say.

Their most straightforward advice concerns the huge and inefficient public sector.

The government should promote competition and privatisation, it should start no new public sector enterprises except in cases of clearly established social need, and it should stop buying sick industries.

They note: "The lessons of unhappy experience with public sector enterprises in all sorts of countries with diverse social and cultural traditions suggest that it is extremely hard to make them function efficiently."

The professors recommend the complete and quick removal of subsidies on fertiliser, irrigation and electricity, as well as of subsidised interest rates for farm credits which, they say, mainly help farmers who are not poor. Instead, they advocate the establishment of institutions such as Grameen Bank, which has been successful in making loans to small farmers in Bangladesh.

Government schemes which help the poor should be better targeted, the report adds.

Pledge over Taiwanese rail link

TAIWAN officials at the weekend reaffirmed the government's determination to build a US$17bn (£11.3bn) high-speed railway despite a vote in parliament on Friday to cut the project's budget for the fiscal year which began on July 1, writes Dennis Engbarth in Taipei.

Legislators voted 58-49 in favour of cutting all NT$9.44bn (£237m) in central government funding for the fiscal year 1994. The proposed 345km railway would cut transit time from Taipei to Kaoshiung to less than two hours, from more than four hours now.

UN in fresh talks on Iraqi missiles

By Mark Nicholson in Amman

TALKS in Baghdad between a senior United Nations envoy and Iraqi officials went into a fourth round last night with no signs of a breakthrough over UN demands for monitoring of two missile testing sites.

Neither Mr Rolf Ekeus, head of the UN special commission into Iraq's weapons of mass destruction, nor Mr Tariq Aziz, Iraq's deputy prime minister, reported progress after an hour's discussion. Both were due to meet again last night.

The talks were unexpectedly joined by Mr Riyadh al-Qaysi, the foreign ministry official who returned late last week from heading an Iraqi delegation to the UN in New York, where negotiations were being held on allowing a limited exception to the post-Gulf war ban on the country's oil sales.

Mr Ekeus said he could draw no particular conclusion from Mr al-Qaysi's attendance. But the official's inclusion marks the first time Iraq has directly linked the two UN negotiations and suggests Iraq is seeking a broader understanding rather than simply a solution to the missiles stand-off.

The oil talks were suspended at Mr al-Qaysi's request. But UN diplomats suggested the two sides had produced a draft text of an agreement.

Divining the motives for US Japan-bashing

THE NEW Japanese government, whenever it finally emerges, had better prepare for battle. Friday's news that Japan's trade surplus was nearly a fifth higher in the first half of this year, compared with the same period a year ago, will only strengthen the resolve of US administration officials who want to see quantitive targets added to the wordy text of the recent bilateral trade agreement.

Japanese bureaucrats at the Ministry of Finance strongly deny that there is any further ground to give, especially on targets for imports in the particular industrial sectors listed in the agreement, arguing that anything more specific would quickly lead to pressure for bilateral, managed trade. The agreement currently commits Japan to "actively pursue" demand-led growth, which is "intended to achieve over the medium term a highly significant decrease in the current account surplus". Now, they say, let us get on with it.

But senior US officials say the agreement, reached with a lame-duck Japanese prime minister at the end of the recent summit of industrial country leaders, was only the first round. US negotiators want to be able to measure the extent to which Japan is taking active steps to expand domestic demand and reduce trade restrictions by monitoring quantitive targets for the current account surplus and the share of imports in gross domestic product.

Only now, with the Japanese election result declared and the new government in the process of taking shape, might the true US motives become apparent. The kind of agreement that emerges from the next round of negotiation should reveal whether the US is really attempting to use its bilateral clout to open up the Japanese market to exports from all countries, as it claims, or whether it wants to target the performance of US exports to Japan, perhaps even at a sectoral level, in order to increase the slice its exporters take from a larger Japanese import cake.

The official US line is the former. Much of the evidence does appear to suggest that Japanese markets are still relatively closed: imports are equivalent to just 3.2 per cent of gross domestic product, less than half the ratio in the US, Germany and Britain as well as Canada. Developing country exports account for only 1.8 per cent of total Japanese consumption of manufactures, compared to 2.9 per cent in the EC and 4.1 per cent in the US. So if quantitive targets can be employed to stop what Washington alleges is Japanese trade management through implicit import barriers and instead stimulate domestic demand to suck in imports and reduce the current account surplus, the gains will be felt multilaterally.

Yet, if the US administration's motives are really multilateral and free-trade spirited, why has it chosen to pursue the matter bilaterally rather than multilaterally? For if the Japanese trade surplus really does reduce employment in other countries by reducing their exports, the evidence does not suggests that it is the US which loses the most.

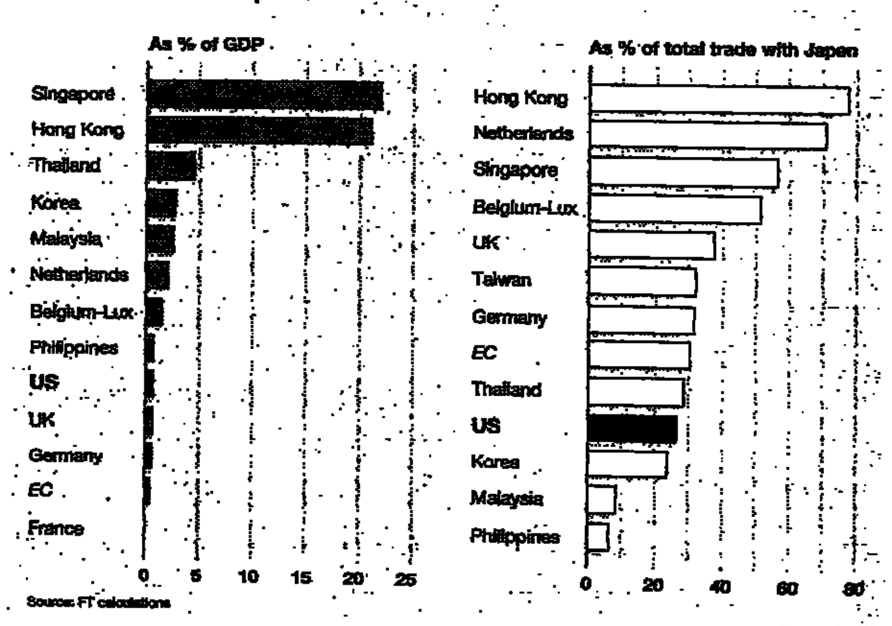
The US may have the largest absolute trade deficit with Japan, measured in dollars. But when the size of the deficit is measured relative to GDP or total trade with Japan, the US barely makes the top ten, as the charts show. Eight countries plus the EC have a larger bilateral deficit than the US relative to their total trade with Japan. Hong Kong's deficit is three times as large relative to total trade than the American deficit. Relative to GDP, the US deficit fades into insignificance compared to Hong Kong and Singapore. The US deficit with Japan is equal to 0.7 per cent of GDP in 1991, while Singapore had a deficit equal to 22 per cent of GDP.

Indeed the top five deficit countries – Singapore, Hong Kong, Thailand, South Korea and Malaysia – all had much larger bilateral deficits with Japan and also, compared with the US, posted far faster growth rates of both GDP and exports and far lower unemployment rates. All of which must put a large question-mark over US and EC claims that it is Japan's trade surplus which is to blame for their multiple domestic economic problems.

Edward Balls

Japan's bilateral trade balances

Trade deficit with Japan 1991



Source: FT calculations

INTERNATIONAL ECONOMIC INDICATORS: **BALANCE OF PAYMENTS**

Trade figures are given in billions of European currency units (Ecu). The Ecu exchange rate shows the number of national currency units per Ecu. The nominal effective exchange rate is an index with 1985=100.

UNITED STATES

	Exports	Visible trade balance	Current account balance	Ecu exchange rate	Effective exchange rate
1985	279.8	−174.2	−159.7	0.7623	100.0
1986	230.9	−140.6	−150.0	0.9836	80.2
1987	220.2	−131.8	−141.6	1.1541	70.3
1988	272.5	−100.2	−107.0	1.1833	66.0
1989	330.2	−99.3	−91.8	1.1017	69.4
1990	309.0	−79.3	−70.9	1.2745	65.1
1991	340.5	−53.5	−3.0	1.2391	64.5
1992	345.8	−84.1	−51.2	1.2957	62.9
2nd qtr.1992	86.8	−16.9	−14.4	1.2717	63.6
3rd qtr.1992	80.6	−17.7	−12.8	1.3831	60.1
4th qtr.1992	91.5	−17.4	−18.7	1.2658	64.2
1st qtr.1993	95.1	−21.8	−17.5	1.1920	66.4
June 1992	29.2	−5.2	n.a.	1.3039	62.3
July	27.3	−5.5	n.a.	1.3663	60.5
August	25.9	−6.2	n.a.	1.4014	59.8
September	27.3	−6.0	n.a.	1.3786	60.2
October	29.4	−5.5	n.a.	1.3210	62.1
November	30.5	−6.3	n.a.	1.2372	65.1
December	31.6	−5.6	n.a.	1.2391	65.3
January 1993	30.9	−6.3	n.a.	1.2132	66.4
February	31.2	−6.7	n.a.	1.1839	66.7
March	33.0	−8.9	n.a.	1.1789	66.2
April	31.4	−8.6	n.a.	1.2214	64.3
May			n.a.	1.2161	63.9

JAPAN

	Exports	Visible trade balance	Current account balance	Ecu exchange rate	Effective exchange rate
1985	230.8	76.0	64.5	180.50	100.0
1986	211.1	96.2	86.9	165.11	124.4
1987	197.3	86.1	75.5	166.58	133.2
1988	219.8	80.7	66.6	151.51	147.3
1989	245.3	70.5	52.4	151.87	141.9
1990	220.0	50.1	28.3	183.94	126.0
1991	247.4	83.1	62.9	166.44	137.0
1992	254.8	101.8	89.8	164.05	142.9
2nd qtr.1992	63.9	26.1	23.1	165.60	139.9
3rd qtr.1992	61.5	23.7	20.1	172.79	138.6
4th qtr.1992	65.2	26.9	24.8	155.57	149.7
1st qtr.1993	72.3	29.7	30.4	144.38	158.5
June 1992	21.3	8.3	6.3	165.32	141.7
July	20.5	8.1	6.9	172.22	139.2
August	19.9	7.4	5.9	177.11	137.0
September	21.1	8.2	7.2	169.05	142.5
October	21.3	8.9	7.7	159.93	148.2
November	22.1	9.1	9.3	153.22	150.3
December	21.7	8.8	7.8	153.57	150.7
January 1993	22.9	8.6	7.3	151.67	151.3
February	23.9	10.3	9.3	142.87	159.2
March	25.5	10.8	13.8	138.61	164.4
April	24.6	9.9	9.6	137.17	167.8
May	23.5	10.1	9.1	134.15	171.0

GERMANY

	Exports	Visible trade balance	Current account balance	Ecu exchange rate	Effective exchange rate
1985	*242.8*	*33.4*	*21.7*	*2.2260*	*100.0*
1986	*248.6*	*53.4*	*40.3*	*2.1279*	*108.8*
1987	*254.3*	*56.8*	*39.8*	*2.0710*	*115.3*
1988	*272.6*	*61.6*	*42.9*	*2.0739*	*114.6*
1989	*310.2*	*65.3*	*52.3*	*2.0681*	*113.5*
1990	323.9	51.8	37.2	2.0537	119.1
1991	327.4	11.2	−16.2	2.0480	117.7
1992	330.3	16.4	−19.9	2.0187	121.2
2nd qtr.1992	81.1	3.6	−5.2	2.0511	118.7
3rd qtr.1992	83.9	6.4	−6.4	2.0221	122.1
4th qtr.1992	82.1	3.4	−4.1	1.9593	125.0
1st qtr.1993			−4.8	1.9476	125.6
June 1992	25.1	0.6	−2.1	2.0498	119.1
July	28.3	1.0	−3.8	2.0410	120.7
August	27.7	3.1	−0.7	2.0326	122.0
September	27.8	2.3	−1.8	1.9927	123.6
October	28.6	2.4	−1.3	1.9564	125.7
November	26.8	0.9	−0.3	1.9634	124.0
December	26.7	0.0	−2.5	1.9581	125.3
January 1993	25.4	1.3	−2.7	1.9592	125.3
February	26.9	0.7	−1.9	1.9437	125.8
March			−0.2	1.9399	125.7
April				1.9483	125.5
May				1.9548	124.1

FRANCE

	Exports	Visible trade balance	Current account balance	Ecu exchange rate	Effective exchange rate
1985	133.4	−3.6	−0.2	6.7942	100.0
1986	127.1	0.0	3.0	6.7946	102.8
1987	126.3	−4.6	−3.6	6.9265	103.0
1988	141.9	−3.9	−3.4	7.0354	100.8
1989	162.9	−6.3	−3.6	7.0169	99.8
1990	170.1	−7.2	−7.2	6.9202	104.8
1991	175.4	−4.2	−4.8	6.9643	102.7
1992	182.5	4.4	2.8	6.8420	106.0
2nd qtr.1992	46.2	1.5	1.2	6.9122	104.4
3rd qtr.1992	45.2	0.9	−0.1	6.8536	106.6
4th qtr.1992	45.7	1.1	2.6	6.6529	109.3
1st qtr.1993	42.2	2.5		6.6067	110.0
June 1992	15.4	−0.16	−0.49	6.9001	104.9
July	15.5	0.87	−0.21	6.8872	106.0
August	14.2	−0.45	0.19	6.8944	106.3
September	15.6	0.49	−0.06	6.7792	107.6
October	15.1	0.11	0.73	6.6368	110.0
November	15.1	0.05	0.23	6.6426	109.0
December	15.4	0.93	1.60	6.6793	108.9
January 1993	13.8	0.57	0.80	6.6437	109.7
February	14.5	0.81	0.45	6.5846	110.3
March	13.9	1.08		6.5919	109.9
April				6.5875	110.5
May				6.6636	109.8

ITALY

	Exports	Visible trade balance	Current account balance	Ecu exchange rate	Effective exchange rate
1985	103.7	−16.0	−5.4	1443.0	100.0
1986	99.4	−2.5	−1.4	1461.6	101.4
1987	100.7	−7.5	−2.1	1494.3	101.2
1988	108.3	−8.9	−8.0	1536.8	97.8
1989	127.8	−11.3	−17.0	1509.2	98.8
1990	133.6	−9.3	−18.0	1523.2	100.6
1991	137.0	−10.5	−28.9	1531.3	98.9
1992	137.9	−8.0	−11.0	1591.5	95.7
2nd qtr.1992	35.8	−3.6	−2.9	1548.3	98.5
3rd qtr.1992	32.9	0.6	−5.5	1564.6	98.2
4th qtr.1992	34.9	0.0	0.0	1719.4	87.1
1st qtr.1993			−4.9	1839.8	80.5
June 1992	12.7	−0.5	−1.0	1550.3	98.5
July	13.9	0.8	−1.9	1546.2	99.5
August	7.7	1.1	−1.5	1543.4	100.1
September	11.3	−1.4	−2.0	1604.1	95.0
October	12.4	0.1	1.5	1723.8	87.3
November	10.8	−1.2	−0.9	1687.0	88.7
December	11.6	1.1	−0.8	1747.5	85.6
January 1993	9.6	0.4	−3.1	1808.3	82.5
February			0.6	1833.6	80.8
March			−2.4	1876.4	78.5
April			−2.9	1871.4	79.0
May				1793.2	82.2

UNITED KINGDOM

	Exports	Visible trade balance	Current account balance	Ecu exchange rate	Effective exchange rate
1985	132.4	−5.7	4.7	0.5890	100.0
1986	108.3	−14.2	0.1	0.6708	91.6
1987	112.3	−16.4	−6.4	0.7047	90.1
1988	120.9	−32.3	−24.3	0.6643	95.5
1989	137.0	−36.7	−32.3	0.6728	92.6
1990	142.3	−26.3	−23.8	0.7150	91.3
1991	147.7	−14.7	−9.1	0.7002	91.7
1992	145.1	−18.7	−16.2	0.7359	88.4
2nd qtr.1992	37.9	−4.4	−4.6	0.7034	92.3
3rd qtr.1992	36.4	−4.5	−3.1	0.7261	90.9
4th qtr.1992	34.5	−5.4	−4.4	0.8015	79.8
1st qtr.1993				0.8017	78.5
1992 June	12.4	−1.4	−1.42	0.7027	92.9
July	12.4	−1.6	−1.08	0.7137	92.5
August	12.2	−1.6	−1.14	0.7219	92.0
September	11.8	−1.3	−0.87	0.7428	88.2
October	11.5	−1.4	−1.06	0.7969	80.8
November	11.4	−1.7	−1.35	0.8100	78.3
December	11.5	−2.4	−2.03	0.7976	80.0
1993 January				0.7809	80.6
February				0.8179	76.8
March				0.8061	78.2
April				0.7894	80.5
May				0.7855	80.5

Due to the introduction of the single market, EC countries are currently changing to a new system of compiling trade statistics. All trade figures are seasonally adjusted, except for the Italian series and the German current account. Imports can be derived by subtracting the visible trade balance from exports. Export and import data are calculated on the FOB (free on board) basis, except for German and Italian imports which use the CIF (including carriage, insurance and freight charges) method. German data up to and including June 1990, shown in italics, refer to the former West Germany. The nominal effective exchange rates are period averages of Bank of England trade-weighted indices. Data supplied by Datastream and WEFA from national government and central bank sources.

North American interest in issue contributes to personal UK investors' allocation being scaled back

Strong institutional demand for BT shares

By Roland Rudd

STRONG DEMAND from institutional investors, particularly in North America, has meant that personal investors in the UK have been allocated fewer British Telecom shares than in the government's previous sale.

Institutional investors have been allocated 40 per cent of the £5bn BT3 offer – 7 per cent more than in 1991 – after bidding for 2.9bn shares. North America accounted for 27 per cent of the international offer and was allocated 20 per cent against 17 per cent last time.

The price of the international offer was set yesterday at 420p, 12p above BT's closing price on Friday of 408p.

The 12p above the market price is considered to be the time value associated with paying in three instalments.

A senior official from the UK Treasury said it was the first time that the government had ever sold shares in a company at its effective market price.

Mr Stephen Dorrell, financial secretary to the Treasury, attributed the success of the sale to the structure of the bookbuilding exercise and the "strengths of the UK financial houses in the world's financial markets".

The UK public offer – which is set at 10p discount to the international offer price – was allocated 60 per cent of the 1.2bn shares on offer. Individual shareholders applied for only 1bn shares compared with 1.7bn in 1991.

More than 95 per cent of applicants in the UK public offer will receive an allocation and more than half will get all they applied for. However, non-BT shareholders who applied for more than 700 shares through the Share Information Office or more than 1,500 through a share shop will not receive anything.

UK institutions accounted for just 46 per cent of bids in the international offer. They have been allocated an extra 2 per cent, partly because they are thought less likely to sell their shares in the aftermarket than overseas investors.

SG Warburg, the government's global co-ordinator, said it could exercise a "Green Shoe" option – or stabilisation provision – by buying an additional 91.5m shares, or 7.5 per cent of the 1.2bn shares for up to 30 days.

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Who gets what, Page 16

Failure to invest in late 1980s puts 'recovery at risk'

By Peter Marsh, Economics Correspondent

LOW manufacturing investment in the late 1980s has put UK recovery at risk, says a report published today by Midland Global Markets, a stockbroker.

Too little of the wealth generated during the late 1980s boom went into building up manufacturing, with the result that the UK "still does not have a sufficiently large manufacturing sector", according to Mr Ian Shepherdson, an economist at Midland.

The study underlines concerns in the City that Britain's large deficit on manufactured goods will increase as the economy expands. That might put a brake on overall economic growth, possibly because a large deficit could weaken sterling and so lead to inflationary pressures and higher interest rates.

Writing in Midland's weekly circular, Mr Shepherdson says net investment by manufacturing in the 1980s was low even by the standards of the 1970s – generally reckoned to have been a dire era for the sector.

Net investment, which accounts for machinery and buildings written off as obsolete or worn-out, totalled 3 per cent of manufacturers' trading profits during the 1980s, compared with 10 per cent in the 1970s. In 1985 prices, net manufacturing investment during the 1980s totalled £6bn, after £26bn in the 1970s.

Mr Shepherdson says that in other areas – such as in rising output per employee and a good record in attracting overseas investment – UK manufacturing performed well in the 1980s. However, the promised overall benefits from such trends "have been slow in appearing". The study warns: "Rebuilding the manufacturing sector could take a decade."

● Stronger business confidence and a growth in the service industry in the second quarter of the year has boosted hopes of economic recovery in London, according to a survey by the London Chamber of Commerce and Industry. Nearly half of service companies said business had improved in recent months, while only 15 per cent said sales had gone down.

Directors predict big rise in inflation

By Peter Marsh

A BIG rise in inflation is likely over the next year as the current period of wage restraint comes to a halt, according to a survey by the Institute of Directors published yesterday.

With only 52 per cent of companies saying they have given their employees a wage increase in the past 12 months, many businesses believe they will be forced to bow to demands for higher pay as the economy recovers. There is also scepticism that the government will stick to its policy of keeping down wage rises among its own employees.

More than a third of the 337 businesses polled in the survey think the year-on-year increase in the retail prices index will rise above 4 per cent by next June. In the year to last month it was 1.2 per cent, the lowest for nearly 30 years. The response implies that the Treasury may have problems keeping its measure of underlying inflation – the RPI excluding mortgage payments – under its 4 per cent target.

In a surprising result, 86 per cent of companies in the survey said the current level of interest rates, held at 6 per cent since January, was "not hindering" their businesses.

Underlining general economic uncertainties, 45 per cent of businesses expected the next move in interest rates would be up, while 49 per cent said they would come down.

The survey, conducted last month, comes after comments from some economists that inflation is dead. "There is very little evidence that directors believe that inflation is being brought under control once and for all," the survey says. Only 7 per cent expected retail price inflation to be less than 2 per cent by next June.

While many businesses are relaxed about the prospects of high import costs forcing up inflation, the survey focuses on worries that prices throughout the economy will shift up during the next pay round.

This is partly due to the repercussions of the long period in which private-sector wage settlements have been kept low, while a 1.5 per cent ceiling has been enforced on pay rises for government employees. Over the next six months, 38 per cent of companies expect to give a pay rise, with a further 16 per cent anticipating one in January.

● National Savings contributed £220m to government funding in June, although £195m of that was due to accrued interest. Net sales were just £25m, with gross sales of £604m offset by repayments of £579m.

Deals agreed on African Leyland Daf subsidiaries

By John Griffiths

RECEIVERS FOR the former Anglo-Dutch truck maker Leyland Daf said at the weekend they had reached agreement on the future of the six African assembly, service and distribution subsidiaries.

Mr John Talbot and Mr Murdoch McKillop, the joint Arthur Andersen receivers, said the new local owners would continue trading in Leyland Daf vehicles, as they have done throughout the receivership.

The receivers would provide no precise details of the new ownership arrangements, which in most cases are expected to involve some state interests. The six subsidiaries are in Ghana, Zambia, Malawi, Tanzania, Uganda and Zimbabwe.

The companies have been operating on a small scale, with combined sales believed to have been about 500 trucks last year, and the companies' sale is only expected to raise between £5m and £10m for the receivers.

The African deal means that only the future of Multipart, the parts warehousing and distribution business in Chorley, Lancashire, has still to be decided.

Leyland Trucks, the Lancashire-based manufacturing company now owned and operated by a management buy-out team, believes it can start working more closely with the African operations to expand production and sales.

"We are now involved in discussions with the new owners of these businesses concerning our future working relationship," Mr Stuart Heys, Leyland Trucks' commercial director, said yesterday.

Heath urges talks with political wing of IRA

By David Owen

THE GOVERNMENT should consider holding talks with Sinn Fein, the IRA's political wing, Sir Edward Heath said yesterday, describing such a step as "a sensible thing to do" when the time was right.

The former prime minister told BBC Radio 4's The World This Weekend: "When the moment is right, I have no objection to them telling Sinn Fein exactly what the government's position is and trying to influence them to have much greater influence over their military counterpart, the IRA, and get them to pack it all in."

He said: "I do not object to people having talks with other political people. During my government, Lord Whitelaw had direct talks with the IRA."

Sir Edward also criticised Mr John Major, the British prime minister, for attacking Mrs Mary Robinson, the Irish president, over her recent meeting with Sinn Fein. He "regretted" the fact that Mr Major got "rather annoyed" that Mrs Robinson met the Sinn Fein leader. "There was nothing to be gained from doing that because obviously the president of the Republic could not accept a rebuke."

Sir Edward said he would keep Dr Ian Paisley, the Democrat Unionist leader, out of any discussions on the province's future, as he did from the 1974 Sunningdale talks. He urged Mr Major to appoint a senior member of the Cabinet with sole responsibility for dealing with terrorism.

"We have had nearly 25 years of terrorism in part of the United Kingdom. We have seen recently it is much more active on the mainland. We cannot go on regarding terrorism as a permanent feature of our life in these islands."

Warning over Japanese-style work practices

By Diane Summers, Labour Staff

PENT-UP resentment from British workers over the imposition of Japanese-style working practices could have a "devastating effect" on industry as the recovery continues, says a report commissioned by the government.

The review of the influence of Japanese companies on UK labour practices, to be published tomorrow, finds "little evidence that Japanese-style international competitiveness can be achieved in Britain by copying some, or even most, Japanese working methods".

It also raises questions about the effect of having to "work as hard as humanly possible" on the quality of employees' lives.

The study, conducted for the Department of Employment by Industrial Relations Services, an independent pay and conditions research group, says British manufacturers are using the threat of Japanese competition to push through reforms in working practices. These include increased flexibility in the tasks workers must undertake, greater individual responsibility for factory floor workers and reductions in waste.

The report's author, Ms Sue Milsome, says this tack has proved more persuasive than the more accurate "but less compelling" argument that "competitive pressures demand changes in working and management practices". Labour law reforms and the recession have probably had more influence on British working methods than the example of companies like Nissan, she says.

A "threat" from German competitors was used in a similar way a few years ago.Ms Millsome says: "This tactic has in fact proved successful in convincing British trade unions to co-operate in reforming working practices."

The report, however, warns that the introduction of some working methods favoured by Japanese companies could increase British industry's vulnerability. For example, "just-in-time" production means companies do not keep buffer stocks. A sudden stoppage by workers could mean immediate lay-offs in other plants, as happened in the 1988 Ford strike.

It warns: "If there is a great deal of pent-up resentment against Japanese-style working practices, and the fragility of production systems has been increased . . . worker dissatisfaction leading to industrial action could have a devastating effect."

The study points to the debate in Japan over *karoshi* – death through overwork. *Karoshi*, it says, is mainly as a result of large amounts of unpaid overtime by Japanese workers. This overtime "needs to be borne in mind when considering measures of Japanese labour productivity".

It concludes that the Japanese economic miracle, which has so impressed western observers, is probably coming to an end. "It may be that Japan's employment practices, in particular, will be jettisoned as Japan becomes a mature economy, so British employers should be wary of imitating practices that are only appropriate in a climate of ever-increasing growth."

Two years ago, the annual conference of the Trades Union Congress voted against "alien" practices, citing examples from Japanese companies in Britain, in particular the holding of "beauty contests" between unions and the selection by employers of single unions to represent all workers. Since 1991, however, the two largest unions to support that – the MSF and TGWU general unions – have themselves signed single-union deals.

LEGAL NOTICES

No. 006243 of 1993
IN THE HIGH COURT OF JUSTICE
CHANCERY DIVISION
IN THE MATTER OF
PRINCEDALE GROUP PLC
- and -
IN THE MATTER OF THE
COMPANIES ACT 1985

NOTICE IS HEREBY GIVEN that a Petition was on 12th July 1993 presented to Her Majesty's High Court of Justice for the confirmation of the cancellation of the share premium account of the Company.

AND NOTICE IS FURTHER GIVEN that the said Petition is directed to be heard before Mr Registrar Buckley at the Royal Courts of Justice Strand, London WC2A 2LL on Wednesday the 28th of July 1993.

ANY Creditor or Shareholder of the said Company desiring to oppose the making of an Order for the confirmation of the said reduction of capital should appear at the time of hearing in person or by Counsel for that purpose

A copy of the said Petition will be furnished to any such person requiring the same by the undermentioned Solicitors on payment of the regulated charge for the same

DATED this 19th day of July 1993
Wedlake Bell, 16 Bedford Street
Covent Garden, London WC2E 9HF
Solicitors for the above-named Company

CONSTRUCTION CONTRACTS

Creating snow in Asia

ACER SNOWMEC, a British company that has developed and patented a method of creating snow for indoor winter sports facilities, has negotiated its first international Snowcentre in Singapore.

The indoor ski and leisure centre, to be built on the island of Batam, will be financed by a private developer as part of a £1bn leisure complex.

Phase I of the main development is already completed and the Snowcentre is expected to be operating by the end of the year.

The snow is created by firing a mixture of water and compressed air into an atmosphere of between -3°C and -10°C to produce snow crystals. A patented thermal storage system reduces capital and running costs to commercially viable levels.

The project is likely to be the first phase of larger project, with negotiations for similar Snowcentres throughout the Asia Pacific region at an advanced stage.

Holiday village

Center Parcs - Scottish & Newcastle's specialist leisure company - has awarded the major building contract for its new holiday village at Longleat to ALFRED McALPINE CONSTRUCTION.

The contract, worth £22.2m, relates to the major part of the construction programme for the new village, which is on schedule to open in the summer of next year and will cost in total around £80m.

Water projects

BIRSE has secured contracts worth £17m in the water industry. The largest, worth about £15m, is for Severn Trent Water and comprises extensions and refurbishment of Melbourne Treatment Works in Derbyshire.

The contract includes the design, supply and installation of all mechanical and electrical work. Work is scheduled to finish in the summer of 1996.

Birse has also won contracts from Tayside Regional Council and Invergowrie Waste Water Treatment Works.

Jamuna bridge development

HYUNDAI ENGINEERING AND CONSTRUCTION, based in South Korea, has put in the lowest bid of US$221m (£147m)to build the 4.8km long Jamuna Bridge in Bangladesh.

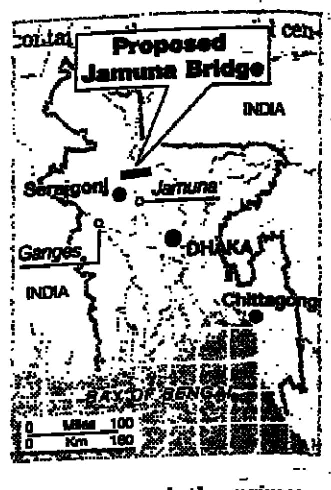
The lowest offer for the river training works came from the Dutch company, HAM/Van Oord ACZ JV. Under the first alternative, with freedom to procure stones from anywhere, it bid US$309m (£206m) or alternatively US$269m (£179m) providing stones were procured from neighbouring countries like India and Bhutan.

Rendel Palmer & Tritton, which has been involved in the project since 1986, will now work with its engineering partners, NEDECO of Holland, the local Bangladesh Consultants and the Jamuna Multipurpose Bridge Authority on evaluating all the tenders received.

The Rendel Palmer & Tritton-led design team has waited 18 months to reach this stage following the green light from the World Bank in January 1992 after a two-year review of the economic return of the project. The tender process was delayed by the decision of the Bangladesh government to re-tender on the river training works.

A much higher price, US$356m (£237m), was quoted in the first bid a few months ago when the contractor envisaged procurement of stones from countries like Malaysiaand Indonesia. The re-tendered price has been reduced by about US$100m (£67m) under the option for procuring stones from neighbouring countries.

The bridge will be the first fixed transport link across the river, which forms a 15km barrier, separating the western side with its fertile north-west zone, from the eastern side



tre Dhaka and the primary port, Chittagong.

The crossing will comprise a bridge structure about 4.8km wide, river training works and road embankments on the flood plain between the river training works and the high banks.

Upgrading offices in Singapore

WIMPEY-WOH HUP, a Wimpey Group joint venture company working in Singapore, has won a £37m contract from the United Overseas Bank to carry out extensive structural alterations and a total refurbishment to a 32-storey tower block in the city.

The company's 82-week project involves removing the roof structure of the Plaza 2 development to construct six additional floors of office accommodation and plant rooms. Other features of the scheme include the demolition of a banking hall which adjoins the base of the tower and the replacement of all electrical and mechanical services.

The building will be completely reclad in new aluminium and granite panels. In this way, Plaza 2, which was built in the 1970s, will be modernised to reflect Plaza 1, a newly-built, 66-storey development on the same site.

Internal partition walls, floors and ceilings will be removed and upgraded. The fit-out of all the building services in the tower - including installation of air-conditioning, fire, electrical, lifts, escalators and plumbing services - forms a major part of Wimpey- Woh Hup's contract.

When the new work is complete, Wimpey-Woh Hup will have created some 39,000 sq metres of commercial office accommodation which will be available for rent.

Improving the North Circular Road

EDMUND NUTTALL has been awarded a contract to upgrade a section of the A406 London North Circular Road by the Department of Transport. Valued at £31.7m, the works are located at Finchley, extending 2.3 kilometres along the A406 from close to its junction with the A1 Falloden Way to a point 400 metres east of its junction with the A1000 High Road Finchley.

The main works comprise the upgrading of the single carriageway to dual three-lane standard, but there are several challenging structures en route. The most significant is a 125-metre top-down construction underpass tunnel which, with the western approach, involves around 575 linear metres of diaphragm wall construction. The tunnel takes the new dual three-lane carriageway under the A504 East End Road, a highly congested roundabout junction with the A406.

Hotel development at Playa del Carmen

GRUPO SITRA, the Mexican company jointly owned by Trafalgar House Construction and Grupo Sidek, has been awarded new work worth more than £22m.

The largest is a £12.4m project for a 300-bed hotel development at the Caribbean resort of Playa del Carmen in the state of Quintana Roo. The bedrooms will be in a number of villas set in a landscaped garden and other building work involves reception areas and a swimming pool.

In Tlaquepaque, near Guadalajara, Grupo Sitra has a £6.7m project to build 180,000 sq ft of shopping space and car parks. The joint development by American retailer, WalMart, and Cifra, one of Mexico's largest grocery retailers, involves constructing a warehouse for a bulk discount Aurrera store and a Sam's Club supermarket.

PEOPLE

Geologist and engineer come on board

N M Rothschild is expanding its small coterie of managing directors from four to six, promoting two men who could not be less like the stereotype merchant banker – a geologist and a mechanical engineer and neither educated at Oxbridge.

Welshman Keith Palmer, 45, the grandson of a miner, is the bank's natural resources expert, and has been responsible for building up Rothschild's corporate and project finance business in the energy, mining and utilities sectors, both in the UK and abroad. Currently looking after the British Coal mandate, Palmer (right) has also brought in plenty of overseas business; last year the UK merchant bank was financial adviser on Argentina's $3.99bn Gas del Estado deal, which was the largest energy privatisation outside the UK.

Before joining Rothschild's in 1984, Palmer, who took a degree in geology from

Birmingham University, had spent four years in the energy department of the World Bank. Earlier experience included a year with the IMF, two years in Tanzania and four years with the finance ministry in Papua New Guinea. He works within the corporate finance department; the divisional head, Russell Edey, is already a managing director.

Meanwhile, John Bishop, the 39-year-old in charge of treasury and bullion, is a mechanical engineer from University College, London. He spent two years with Babcock & Wilcox before joining Rothschilds in 1977, where he has spent his entire career on the treasury side.

Treasury was the only division not represented at managing director level. The other mds are Tony Alt, heading up the capital markets side, Bernard Myers in charge of international and David Sullivan running the banking division.

The bank denies that this round of promotions holds any wider significance in terms of flagging an heir apparent. "There are plenty of family members around," says a spokesman, referring to David de Rothschild, deputy chairman under Sir Evelyn de Rothschild, and Amschel Rothschild, recently elevated to executive chairman of Rothschild Asset Management.

Non-executive directors

■ **Sir Keith Bright**, chairman of Electrocomponents and Brent Walker and a former chief executive of London Transport Executive, and **Keith Mackrell**, Shell's retired regional co-ordinator for the Far East and Australasia, at FAIREY GROUP.

■ **Peter Sutherland** has resigned from BRITISH PETROLEUM and from CRH following his appointment as director general of Gatt.

■ **David Winterbottom**, former chief executive of Evode, at BARR & WALLACE ARNOLD TRUST.

■ **Arthur Edwards**, a former director of Kwik Save, at SHOPRITE GROUP.

■ **Max Ulfane**, a director of Merlin International Publishing, and **Cento Veljanovski**, a former director of the Institute of Economic Affairs and adviser to the Peacock committee, at FLEXTECH; **Sir Jack Rampton** and **Larry Tindale** have retired.

■ **Edward Holroyd**, chairman of Holroyd Construction Group, as president of LEEDS AND HOLBECK BUILDING SOCIETY; **Peter Hartley**, chairman of Leeds Development Corporation, is vice-president.

■ **Robert Brooks** as chairman and **Benjamin Siddon**, a director of Kleinwort Benson Investment, at KLEINWORT DEVELOPMENT FUND; **Lord Rockley** has resigned and **Donald Lawrence** retired.

■ **Greg Dyke** at YORKSHIRE-TYNE TEES.

Michaelson moves from MAM

The revolving door at the top of Mercury Asset Management took another turn last week with the announcement that Bob Michaelson, a director of the group and chairman of its North American subsidiary Warburg Investment Management International, is joining Citibank Global Asset Management at the end of August.

In the past 18 months MAM, which once had a formidable reputation for holding on to its staff, has lost star fund manager Leonard Licht, as well as two other main board directors Richard Bernays and James Dawnay.

Neville Bowen, chief executive of Citibank Global Asset Management, says the attraction for Michaelson was the international nature of his operation. Based in London, Citi's new unit, created early last year, manages $68bn in assets, mostly for non-UK clients, via 26 investment teams around the world. Mercury, by contrast, is a much more domestic operation. "He has been concerned with international markets all his life," says Bowen.

Michaelson, 46, joins in the newly created role of global chief investment officer. Bowen says he, together with a number of colleagues, had been determining overall investment policy up to now. "I am an investment person and so that was not a problem, but what has happened is that we have been growing so rapidly, we needed new resources."

In his new job, Michaelson, who will work from London, will be managing all the investment teams, determine global asset-allocation strategies, and also be in charge of some of the largest accounts.

Earlier in his career, Michaelson was a managing director of Putnam International Advisors in London; he had also worked for Putnam at its Boston headquarters from 1978-1981. Joining MAM in 1984, he spent three years in New York from 1987, returning to London in April 1990. In his current assignment he has been in charge of investments in continental Europe.

■ **Tony Taylor**, chairman and ceo of Leopold Joseph & Sons (Guernsey), has been appointed to the main board.

ECONOMICS

Figures should confirm recovery

THIS week should bring statistical confirmation that the UK economic recovery is progressing well, while industrial production in France and Italy continues to fall.

Provisional GDP figures on Friday are expected to show that British economy grew at an annual rate of about 1.5 per cent in the three months from March to the end of June. Analysts have been steadily upgrading their forecasts for GDP this year, with the Treasury's latest survey of independent economists indicating real growth of 1.6 per cent in 1993 and 2.6 per cent next year.

Although official figures give only a partial insight into the UK's trading performance (the June figures for trade with non-EC countries are out on Wednesday), all the signs are that Britain is experiencing a well balanced recovery.

Figures last week showed manufacturing output growing strongly, led by investment goods production. At the same time, unemployment has fallen further while inflationary pressures are subdued.

This week's figures are expected to confirm that consumer demand continues to grow modestly, with only a gradual pick-up of bank and building society lending. Such a recovery may not win many votes – in fact it may almost go unnoticed by many people – but it offers the best chance of the UK enjoying a sustained upturn while gradually reducing its current account balance of payments deficit.

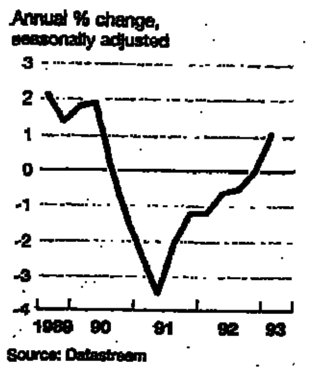
Mr Kenneth Clarke, the chancellor, should be able to give a generally upbeat assessment of UK economic developments when he appears for the first time before the Commons Treasury and Civil Service Committee on Wednesday afternoon.

On the following day, the Maastricht Treaty faces a formidable parliamentary hurdle in the UK when the Commons debates the social chapter and Labour amendments to government policy.

Elsewhere, attention will be focused on German money supply. The Bundesbank is expected to announce the June data early in the week. If M3 growth lies within the 4.5 per cent to 6.5 per cent target range, it will encourage hopes of further interest rate cuts in Germany that could ease the strains in the European Monetary System.

The following are some of the week's economic highlights and events. The figures in brackets are the median of economists' forecasts from MMS International, a financial information company.

UK Real GDP growth



Source: Datastream

Today: Germany, Mr Kenneth Clarke, UK chancellor, visits the Bundesbank and speaks about UK competitiveness in Munich. Japan, June money supply (M2 and CD up 1.3 per cent on year). Canada, May wage settlements (1 per cent). Sweden June unemployment (10 per cent).

Tomorrow: UK, June CBI distributive trade survey, building society commitments (£2.9bn), M4 (up 0.4 per cent on month, 3.9 per cent on year), M4 lending (£1.8bn). US, June housing starts (1.25m), building permits, Fed Chairman Alan Greenspan delivers Humphrey-Hawkins testimony to House Banking Committee. Japan, May leading diffusion index, coincident index. France, May industrial production (down 0.2 per cent). Canada, June construction wage index (down 0.1 per cent).

Wednesday: UK, June retail sales (up 0.3 per cent on month, 2.5 per cent on the year), trade with non-EC countries (£850m deficit). May construction orders.

Thursday: UK, British chambers of commerce quarterly business survey: provisional vehicle output. US, June Treasury budget ($9bn surplus); money supply week ended July 12 (M2 $4.7bn); initial claims week ended July 17 (337,000); Alan Greenspan gives Humphrey-Hawkins testimony to the Senate. Canada, May retail sales (up adjusted 0.2 per cent on month).

Friday: UK, preliminary second quarter GDP (up 0.5 per cent on quarter, 1.5 per cent on year). US, auto sales July 11 to 20 (6.8m).

During the week: Germany, June M3 from fourth quarter base (6.5 per cent), West German producer prices (flat on month, down 0.4 per cent on year). Italy, may industrial production (down 4.2 per cent on year); June M2 (up an annual 6.1 per cent), bank lending (up an annual 5 per cent); July consumer prices in cities (up 4.3 per cent on year). Japan, Bank of Japan quarterly economic outlook. Finland, June trade balance.

PARLIAMENTARY DIARY

■ **TODAY**

Commons: Questions to Welsh ministers and Chancellor of the Duchy of Lancaster.

Education Bill, timetable motion and Lords amendments.

Lords: Railways Bill, committee.

Disclosure of Interests in Shares (Amendment) Regulations.

Partnerships and Unlimited Companies (Accounts) Regulations.

Meat and Livestock Commission Levy (Variation) Scheme (Confirmation) Order.

Statute Law Repeals Bill, committee.

Select committees. Defence. Subject: Statement on the defence estimates for 1993. Witness: Mr Malcolm Rifkind, defence secretary. (2.45pm, room 15).

■ **TUESDAY**

Commons:

Defence questions.

3.15pm Questions to the Prime Minister.

Debate opened by the Opposition on "the threat of Government policies to the social fabric and the security of the individual".

Immigration and asylum orders.

Lords:

Pension Schemes Bill, report.

Pension Schemes (Northern Ireland) Bill, report.

Health Service Commissioners Bill, third reading.

Probation Service Bill, third reading.

European Communities (Amendment) Bill, third reading.

Select committees: National heritage. Subject: the future of the BBC. *Witnesses: Classic FM*; association of independent radio companies; BBC network radio and BBC regional broadcasting. (10.30am, room 15).

■ **WEDNESDAY**

Commons:

Trade and Industry questions.

Debate on domestic violence.

Suppression of Terrorism Act (Application of Provisions) (India) Order.

Incumbents (Vacation of Benefices) (Amendment) Measure.

Private business – Croydon Tramlink Bill, second reading.

Lords:

Railways Bill, committee.

Select committees: Environment. Subject: Energy efficiency in buildings. Witness: minister of state, department of the environment. (9.15am, room 21); European legislation. Subject: Agriculture. Witness: Mrs Gillian Shephard, minister of agriculture. (11am, room 15); Social security. Subject: The operation of pension funds. Witnesses: Clay and partners pension trustees; MCP pensions trustees; MGN pensions trustees; the Law debenture trust. (3.15pm, room 21); Employment. Subject: The management of redundacies. Witnesses: Graphical, paper and media union; NUJ; Mirror group newspapers (4.15pm, room 20); Transport. Subject: Future of the railways. Witness: Mr Brian Horton, chairman-designate, Railtrack. (4pm,room 15); Parliamentary commissioner for administration. Subject: The powers, work and jurisdiction of the Ombudsmen. Witness: Mr William Waldegrave, chancellor of the duchy of Lancaster. (4.15pm, room 16); Treasury and civil service. Subject: General economic and financial matters. Witness: Mr Kenneth Clarke, chancellor of the exchequer. (4.30pm, room 8).

■ **THURSDAY**

Commons:

Home Office questions.

3.15pm Questions to the Prime Minister.

Debate on motion on Maastricht Treaty's Social Chapter.

Lords:

Debate on motion on Maastricht Treaty's Social Chapter.

■ **FRIDAY**

Commons:

Debate on the Environment.

Lords:

Statute Law Repeals Bill, report.

National Lottery Bill, third reading.

European Parliamentary Elections Bill, second reading.

Education (Assisted Places) (Amendment) Regulations.

RESULTS DUE

SmithKline expected to be 10% ahead

SmithKline Beecham, the Anglo-American healthcare group, reports its second quarter results on Tuesday.

Analysts are expecting a 10 per cent rise in pre-tax profits to £280m, excluding any one-time exceptional items such as disposals to Wella and Sara Lee.

The dividend is likely to be unchanged.

Sales are expected to be up by about 25 per cent in the pharmaceuticals division and the group.

Both figures will be assisted by currencies. Analysts will be looking for strong growth from Engerix-B, the hepatitis B vaccine, Seroxat, an anti-depressant, Kytril, an anti-nausea treatment.

Relafen, the non-steroidal anti-inflammatory for arthritis, and Augmentin, an anti-biotic. The latter may overtake SB's anti-ulcer treatment Tagamet as the company's most important drug.

The impact of the healthcare reforms in Germany and Italy will be carefully monitored, as will the company's progress in the increasingly competitive US market.

Waste Management International is expected to report on Monday interim pre-tax profits of between £75m and £80m against £62.5m a year earlier.

The company, floated by its US parent Waste Management which retain majority control, has benefited from its joint venture with Wessex Water in the UK and from expanding business in the Far East and Pacific Rim countries.

Full year profits for the year ending December are forecast at about £180m (£144m).

First Technology, a maker of crash dummies and security equipment for the car industry, is forecast to turn in a big increase in pre-tax profits to about £2m from (£0.6m) for the year to April.

UK COMPANIES

■ **TODAY**

COMPANY MEETINGS:

BAA, Queen Elizabeth II Conference Centre, S.W., 11.30

Foreign & Colonial Smaller Cos', Exchange House, Primrose Street, E.C., 12.30

BOARD MEETINGS:

Interims:

Grosvenor Dev. Cap.

Ramsdens (H.)

■ **TOMORROW**

COMPANY MEETINGS:

Cable & Wireless, Grosvenor House, Park Lane, W., 11.00

Courtaulds, London Marriott Hotel, Duke Street, W., 10.45

Powell Duffryn, Grosvenor House, Park Lane, W., 12.00

Warnford Invs., Chartered Insurance Institute, 20 Aldermanbury, E.C., 12.00

BOARD MEETINGS:

Finals:

Breweay

Consolidated Murchison

Marling Inds.

Reliance Security

Interims:

Central Motor Auctions

Prospect Inds.

St. Andrew Tst.

■ **WEDNESDAY JULY 21**

COMPANY MEETINGS:

Bertram Hldgs., Founders' Hall, 1 Cloth Fair, E.C., 11.00

Cassidy Bros., Mitcham Road, Marton, Blackpool, 3.00

Cullen's Hldgs., Carlton House, 33 Robert Adams St., W., 11.15

De La Rue, Savoy Hotel, Strand, 12.00

Dunhill Hldgs. Spencer House, St. James's Place, S.W., 12.00

Elliott (B.), RSA, 12.00

Merchant Retail Grp., Chartered Accountants Hall, Moorgate Place, E.C., 11.00

Moorgate Smaller Co's Income Tst., Smith New Court House, 20 Farringdon Road, E.C., 11.30

North West Water, Armitage Centre, University of Manchester, 10.30

Osborne & Little, 304 King's Road, S.W., 11.00

Unigate, The Dorchester Hotel, Park Lane, W., 12.00

Vodafone, The Institution of Electrical Engineers, Savoy Place, W.C., 11.45

BOARD MEETINGS:

Finals:

AIM Grp.

Eve Grp.

Fleming Enterprise Inv.

Govett American

Worthington Grp.

Interims:

Trust of Property Shares

Yeoman Inv. Tst.

■ **THURSDAY JULY 22**

COMPANY MEETINGS:

Anglian Grp., Merchant Taylors' Hall, Threadneedle Street, E.C., 12.00

BET, Park Lane Hotel, Piccadilly, W., 11.00

Babcock Intl. Grp., Insurance Hall, 20 Aldermanbury, E.C., 12.00

Boots Co., Queen Elizabeth II Conference Centre, S.W., 11.00

Brockhampton Hldgs., Brockhampton Springs, West Street, Havant, Hants., 12.30

City of London PR., Honourable Artillery Company, City Road, E.C., 11.30

Cohen (A.) & Co., Clareville House, 25-27 Oxendon Street, S.W., 12.00

Elswick, Royal Automobile Club, Pall Mall, S.W., 10.30

Hardy Oil & Gas, Plaisterers' Hall, 1 London Wall, E.C., 11.00

Jarvis Porter, Stationers' Hall, Ave Maria Lane, E.C., 11.00

Kalt Energy, 4 College Hill, E., 10.30

Melville Street Invs., Dunedin House, 25 Ravelson Terrace, Edinburgh, 12.00

Northumbrian Water, Marriott Hotel, Metro Centre, Gateshead, 11.00

Regalian Props., Chesterfield Hotel, 35 Charles Street, W., 11.30

Scapa Grp., Blackburn Moat House, Preston New Road, Blackburn, 12.00

Southnews, 326 Station Road, Harrow, Middlesex, 12.00

South West Water, Palace Hotel, Torquay, Devon, 11.00

Stoddard Sekers Intl., Glenpatrick Road, Elderslie, Renfrewshire, 12.30

Yorkshire Water, Sheffield City Hall, 11.00

BOARD MEETINGS:

Finals:

Abtrust Prf. Inc.

Ebief

First Technology

Firth (G.M.)

Tinsley (Eliza)

Interims:

Bullough

Caverdale Grp.

Elandsrand Gold Mining

Grahams Rintoul Inv. Tst.

Hill & Smith

Holders Technology

Southvaal

Throgmorton Tst.

Vaal Reefs Exp. & Mining

Western Deep Levels

Witan Inv. Co.

■ **FRIDAY JULY 23**

COMPANY MEETINGS:

Clarke, Nickolls & Coombs, First Base, Unit 2, The Grand Union Office Park, Packet Boat Lane, Cowley, Uxbridge, 11.30

ERG, 23 Great Winchester Street, E.C., 11.00

Electrocomponents, Trillium Room, 21 Knightsbridge, S.W., 12.00

Fleming Continental European Inv. Tst., 25 Copthall Avenue, E.C., 12.00

NSM, 30 Furnival Street, E.C., 11.00

Readicut Intl., The Institute of Directors, 116 Pall Mall, W., 12.30

Rolfe & Nolan Computer Services, Chartered Accountants Hall, Moorgate Place, E.C., 12.00

BOARD MEETINGS:

Finals:

Black Arrow

Interims:

Smaller Co's Inv. Tst.

Company meetings are annual general meetings unless otherwise stated.

Please note: Reports and accounts are not normally available until approximately six weeks after the board meeting to approve the preliminary results.

DIVIDEND & INTEREST PAYMENTS

■ **TODAY**

Airflow Systems 2p
Asahi Brew. Flg. Rate'98 Y251,808
Barings Gld. Flg. Rate 2001 $251.39
Betterware 1.5p
Blue Circle Inds. ADR $0.145
Booker ADR $0.94
Brazilian Inv. Tst. $0.07
Brixton Estate 5.35p
European Colour 0.525p
Fleming Euro. Fledgling Inv. 0.15p
Gopeng M$0.05
MEPC 5.25p
Scottish Inv. Tst. 1.7p
Tarmac 2.5p
Tesco ADR $0.092
Texas Instruments $0.18
Utd. Kingdom 9¾% Exch.'98 £4.875
Do. 2% Index-Linked Tr. 2006 £2.01
Vaux 3.25p

■ **TOMORROW**

Bradford & Bingley Bldg. Soc. 11⅝% PIBS £5.8125
Brit Steel 11½% Deb. 2016 £5.75
Elys (Wimbledon) 9¾% Un. Ln. '95/99 £4.875
Fisons ADR $0.3807
Foreign & Col. Small. Co's 1.16p
Japan Airlines 6% 1999 Y600,000
Linton Park 11.5p
M & G Inc. Inv. Tst. Package Units 1p
Do. Geared Units 1p
Do. Income Shrs. 1p
Mid Kent Hldgs. 5.75p
Pokphand (C.P.) $0.00769
Rolls-Royce ADR $0.218
Tate & Lyle 4.3p
Trafalgar House 1.25p

■ **WEDNESDAY JULY 21**

Atkins 4.25p
Bank of N.Y. Overseas Finance Gtd. Flg. Rate Nts.'96 $132.71
Barclays Bk. Undated Flg. Rate Primary Cap. Series 3 £4,090.33
Graig Shipping 5p
Do. A Non-vtg. 5p
Latin Amer. Extra Yield Fund $0.31
Leeds Permanent Bldg. Soc. Flg. Rate 1994 £77.44
National Westminster Bk. Undated Var. Rate Nts. $1,023.75
Nationwide Bldg. Soc. Flg. Rate 1998 £76.82
Do. Flg. Rate Nts. 1998 £77.13
Northern Rock Bldg. Society Flg. Rate Nts. 1995 £77.13
Okobank Osuuspankkien Kes. Var. Rate Sub. Nts. 2000 $98.08
Penna 7p
3i Grp. Flg. Rate Nts. '94 £77.13
United Kingdom 10¼% Exch. '95 £5.125
Woolwich Bldg. Soc. Flg. Rate Nts. 1993 £154.26

■ **THURSDAY JULY 22**

Bertram 2.5p
Britannia Bldg. Soc.Flg. Rate Sub. 2005 £18,543.10
Dunhill 5.25p
Faber Prest 5p
Fairline Boats 3.575p
Mentor 6¾% Cv. Sub. Dbs.'02 $67.50
Mitsubishi Capital Gtd. Dual Basis 2000 $2,432.99
Mitsubishi Kasei 6% Nts. '98 Y600,000
Royal Bank of Scotland 3p
Smithkline Beech. ADR $0.2438
Sweden 13½% Ln. 2010 £67.50
Tokyo Tatemono 4.9% '98 Y122,500
TSB Hill Samuel Bk. Hldg. Flg. Rate 2016 $191.68
United Kingdom 12% Exch. '99/2002 £6
Do. 4⅝% Index-Linked Tr. 2030 £2.1327
Do. 13¼% Treas. Ln. '97 £6.625
Do. 11¾% Treas. 2003/07 £5.875
Do. 14% Treas. 1998 £7
Woolwich Bldg. Soc. Flg. Rate 1998 Ecu226.55
Wrexham & East Den. Water 4.9% Ptg. 92.45p
Do. 3.5% Ptg. Pf. 91.75p

■ **FRIDAY JULY 23**

African Development Bk. 11.25% 2001 £562.50
Bilton 13.23p
Chester Waterworks Cons. £1.80
Do. 3.15% Pf. £1.50
City of London PR 2.35p
CPC Intl. $0.32
Eastern Transvaal Cons. Mines R0.07
Elswick 0.15p
Hartebeestfontein Gold R0.65
Highlands & Lowlands M$0.0625
Hino Motors 6% 1998 Y600,000
ITOCHU Flg. Rate Nts. '97 Y87,208
Locker (Thomas) 0.65p
Do. A Non-Vtg. 0.65p
Osborne & Little 2.8p
Rolfe & Nolan Computer 4.65p
Southern Radio 0.3p
Time Products 5.2p
Tunstall 2.5p
YTB Finance (Australia) Gtd. Sub. Flg. Rate Nts. 2003 $965.30

■ **SUNDAY JULY 25**

Bankers Trust New York $0.78
Debenhams 7¾% Un. Ln. 02/07 £3.625
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Delegate and rule

In a new series on Euromanagers Viktor Korovin of Uralmash in Russia, talks to **Leyla Boulton**

AS HEAD of the regional Communist Youth League nine years ago, Viktor Korovin incurred the wrath of Boris Yeltsin. His offence was to have sent his deputy to a meeting with the man who was then regional Communist Party boss. As chief executive of newly-privatised Uralmash, Russia's biggest heavy engineering company, the 40-year-old Korovin still believes it is "to a leader's credit if he has a deputy who can replace him".

Delegating responsibility is a key component of his strategy for overhauling a flagship of Stalin's industrialisation which last week celebrated its 60th anniversary in President Yeltsin's home-town of Yekaterinburg.

The managerial challenge of adjusting to the chaotic market reforms sweeping Russia are formidable. But if there is anyone capable of handling them, it is Korovin, who has already displayed shrewd and energetic leadership since taking on the top job at Uralmash (Urals Heavy Machine-Building Factory) 14 months ago.

Korovin's self-deprecating manner and boyish – almost scrawny – appearance only thinly disguise a relentless workaholic.

Sitting in a spartan office overlooking the railway that criss-crosses the Uralmash factory, he says human challenges outweigh by far the severe problems of worn-out plant and equipment, financial crisis and government interference.

His workforce has been reduced from 38,000 to 29,000 since he took over, with 5,000 leaving of their own accord and 4,000 made redundant. The administrative staff have been put on a four-day week and the level of activity at the plant is a shadow of what it was under the old state planning system when, as he puts it, "demand for our products was artificially high". Further job cuts will "depend on our success in the market".

Since he was elected to run Uralmash in a contest with four other candidates, he has appointed like-minded men of his generation as directors for marketing, personnel, production and finance. He has given them full responsibility and freedom, dumping the highly-centralised system that continues to exist within most enterprises in the former Soviet Union.

"Russians are in no way inferior to Germans or Italians," says Korovin, who worked for an engineering company outside Frankfurt in 1990, and then headed Uralmash's joint venture with Austria's Voest-Alpine.

"The only difference was that the economic framework in which people have worked has been all wrong. My task is to change this, and then you can really expect miracles from people."

Viktor Korovin: a relentless workaholic who leads from the front

In an attempt to compensate managers for pay that is demoralisingly low by comparison with the fortunes being made by new entrepreneurs, options on 5 per cent of Uralmash stock have been set aside for them. Korovin's salary, set when he was appointed at 5.6 times the prevailing average wage at Uralmash, is equivalent to $200 (£134) a month.

In a move to improve shop-floor incentives, he plans to give the different sections of the under-used plant enough autonomy to take on additional contracts and use the profits as they wish "to re-equip, expand, or even increase wages".

Even though he claims not to enjoy it, he says the recipe for earning the respect of a workforce at large gatherings is to "talk very sharply, crudely, even shouting at times". Faced with constant strike threats over low pay, his reply has been "go ahead and strike, your pay will be even smaller".

To cope with theft of factory materials he has set up a security force to patrol the 5sq km plant. There is little else he can do when his low-paid workers have even managed to smuggle out copper through the plant's sewage system.

Notwithstanding his enthusiasm for delegation, Korovin is a man who is capable of leading from the front.

In his fight for new markets to replace dwindling state procurement orders, he last winter led a consortium of Russian companies which fought for and won a contract to supply mining and transport equipment to Russia's $1bn Udokan copper development project. He is now looking to expand exports of mining equipment to China and is trying to latch on to a variety of mining and oil projects within Russia.

Most factory managers in Russia jump at the chance to visit the US on a business trip. But Korovin has left Uralmash's finance director in charge of negotiations with the US groups Caterpillar and National Oil Well for a joint venture in the production and marketing of oil drilling equipment.

Rather than run to the government for wage and other subsidies, as some privatised companies are continuing to do, Korovin is pushing for the state to take on the financing of the cheap housing, kindergartens and other services that Uralmash provides. Korovin is desperate to shed these non-productive assets which he says amount to an invisible 30 per cent tax on profits. He has stopped building housing for workers, even though it has long been the tradition that staff receive their own apartment after 10 years service.

At the root of the efforts to keep down costs is a desperate desire to save jobs and avoid what he calls a "social explosion". As Kakha Bendukidze, a wealthy entrepreneur who bought 18.5 per cent of Uralmash shares says, there is a "need to stop unemployed workers from smashing up the plant".

Korovin says the government's biggest mistake is failing to create jobs and he criticises politicians for interfering with his new freedom. One example is the finance ministry instructions telling him to launch a capital increase. Korovin insists it should be his responsibility to decide the terms and the timing, even if the government still has 20 per cent of the equity.

Instead of trying to micro manage companies the government should get on with its job of removing market distortions.

"There is demand for our equipment but the crisis is structural. Our customers – steel companies and coal enterprises, for example – have capacity which must die. But they're trying to maintain everything and that's why we are not being paid."

Those customers that have money have insufficient incentives to re-equip. "Stop piling up your money," is his sales pitch to them. "It's time to start buying equipment otherwise you're bad managers and any decent capitalist will wipe you out."

Motivated by the same ambition and energy which propelled him to the top of the old Communist system even though he now believes in a completely different ideology, he works 14 hours a day, six days a week. "I know that's bad," he says, as he chain-smokes his way through a packet of Marlboro cigarettes. "It's much better to be fresh for the next day. But all I have time for is to sleep a little and spend Sunday with my family."

A risky exercise at the BBC

Christopher Lorenz on John Birt's dilemma

Leaders who try to achieve radical change in their organisations almost always face vilification at the outset. They are denounced with especial venom if most of their employees can see no external crisis, and so no great need for change. They are cursed to the rooftops if they try to enforce it by dictating new ways of working, rather than by first creating a broad and deep consensus on what needs to be done.

This phenomenon has plagued a string of tough-guy business leaders who have taken their organisations by the scruff of the neck over the past decade and tried to haul them screaming into the world of late 20th century management.

Consider, above all, Jack Welch of US General Electric. Since the late 1980s he has been recognised for what he is – one of the most effective transformational leaders of our age. Starting brutally in 1981, he yanked GE out of its illustrious, but over-confident past and turned it into one of the few large US corporations which has a decent global market share in many of its businesses.

Six years ago much of his organisation still spat blood at him. "Mad Jack" and "management by fear" were just two of the politer epithets about his style which echoed around GE – and outside it. But he then mended matters by showing he had learned the need to accompany "hard" change (or follow it) with "softer" measures to change the corporate culture.

These included several continuous education initiatives, and also a highly participative "workout" programme of removing needless rules and work procedures. GE is now home to some very far-reaching employee "empowerment" successes. Other companies have learned from its experience, accelerating their change processes – and defusing early opposition – by introducing "hard" and "soft" initiatives in parallel.

If Welch has listened to US Public Service Broadcasting (PBS) over the past week, or perused the British press – which he does often – he will feel some sympathy for an equally high-profile UK chief executive who has now landed himself in a similar position, attracting complaints of "Stalinism".

But Welch's sympathy will be limited, because his counterpart is a less effective leader and his problems are partly self-made.

The man in question is John Birt, who seven months ago took over as director-general of Britain's nearest equivalent to PBS, the British Broadcasting Corporation.

For the benefit of readers who are not fixated by the regular spate of storms at the BBC, a summary of Birt's situation is required. He is trying to achieve something far harder than the loosening-up exercise which Welch performed on an over-controlled GE: Birt has to create a tightly managed enterprise out of a loose, public-sector collection of fiefdoms which have thrived in creative terms for decades – but with manifest financial waste – beneath an ineffective, committee-ridden bureaucracy.

He is failing to apply properly US and European experience of how to lead transformational change

Behind this attempted revolution lies Birt's twofold mission: to ensure that a traditionally hostile government is so struck by the BBC's sudden surge in cost-effectiveness that it renews its charter in 1996, together with its prime source of financing, a licence fee levied on every TV user; and to shore up the BBC's market share against an ever-rising flood of rival TV and radio stations.

Birt's prime method of change has been to force through the creation of an (over-fragmented) internal market through a procedure called "producer choice". This is an unfortunate term for what is, in effect, a cost control mechanism.

If Birt were to ask Welch for advice on his predicament, he would receive some tough-talking – not about what he is trying to achieve, but about how. For Birt has made a series of mistakes which are fundamental to the (mis)management of change. Some spring from his uncommunicative and uninspiring public persona – an utter contrast with Welch and other successful "change masters". Other errors flow from the advice he has been given by some of the accountancy-based management consultancies on which he has relied to an excessive extent.

Most fundamentally, he is failing to apply properly modern US and European experience of how to lead transformational change. In the UK, all sorts of private and public sector organisations, from BP and ICI to hospitals schools and even a few local authorities, are achieving uncomfortable change by setting a top-down direction, and then stimulating the enthusiasm, participation and initiative of their staff. Birt did help spark a year-long consultation exercise before he took over, but it has failed to create much consensus.

Nowhere was this more evident last week than in a newspaper article by one of his top advisers, David Hatch, which reeked with language about "we" and "them" (as in "*we* will tell *them*..." and "*their* lack of uncertainty about *our* objectives" – my italics). It is hard to imagine a less effective way of preparing the ground for the sort of "ownership" or "buy-in" which any programme of change must create if it is to succeed.

That is done not by diktat and cursory "sheep dip" re-training for staff, but – as at BP – by co-opting change agents among existing employees at all levels, and inspiring rather than ordering them to enthuse their own colleagues in turn. For this to work, open debate must be encouraged; it can be discreetly "facilitated" and kept within bounds.

If all this has proved necessary to accomplish change in multinational machine bureaucracies, it is even more vital in a creative "know-how" organisation such as the BBC. Birt's apparent failure to recognise this so far – or to apply it effectively – has contributed heavily to the very poor state of staff morale which was all too evident in the employee attitudes survey published on Friday.

Birt and his advisers have also shown poor judgment on two other counts: his special personal salary arrangements, and those of other top staff; and last week's seeming shift of the BBC's business strategy away from Birt's initial up-market focus – a shift he then denied.

Some employees will always resist change. But for most to "buy-in" to it, they need faith in their leader as an individual and in his strategic vision.

Welch built both in spades. Birt's lack of them could yet be his undoing.

Architecture / Colin Amery

A castle fit to house a modern monarchy

Last week two related events occurred that brought a bit of life to the architectural world. One was that Country Life, the magazine with a first-rate architectural editor in the shape of Mr Giles Worsley, announced the results of its competition for the rebuilding of parts of Windsor Castle damaged by fire.

The other was also related to Windsor Castle, the appearance of a book *Windsor, the Most Romantic Castle* by Mark Girouard, which contains a chapter devoted to new ideas for rebuilding the castle's burnt-out St George's Hall. Both sets of ideas form the basis of an exhibition at the Architecture Foundation in London, which it is hoped will then travel to all parts of the kingdom.

When the smoke finally blew away from the charred ruins of the castle after the fire last November, crowds of the curious and the impertinent came forward with their views on what should be done. In fact, the damage was not as bad as had been thought. Only the north-east corner of the Upper Ward was affected. But it was a part of the castle that contains several important rooms.

The fire began in the private chapel and attacked St George's Hall, the Grand Reception Room, the Octagon Room in the Brunswick Tower, the Dining Room, Crimson and Green Drawings Rooms and the Great Kitchen. It spread with sickening speed through the roofs of these rooms, but, although it damaged the walls, they are not beyond repair. By a stroke of good fortune, the furnishings of these rooms had been removed for a rewiring programme and it all survives.

The survival of almost all the furnishings and works of art from these rooms would seem to make it sensible speedily to rebuild the castle exactly as it was in before the fire.

But, naturally enough, there have been strange cries from architects calling for contemporary contributions to the rebuilding. Mr Girouard's book and the competition entries from Country Life are part of a campaign to promote a debate which tries to relate the rebuilding of Windsor to the modernisation of the monarchy as an institution.

Competitions should be judged by their results, not simply by their good intentions. The 10 proposals for St George's Hall in the Girouard book come not only from architects, but also stage and lighting designers. It is a strange list that seems to demonstrate how difficult it is for architects and designers to understand the purpose of state rooms, the role of history and the functions of the monarchy. The implication is that Wyatt Ville's work at Windsor was dull and there is little understanding of how the castle works when it is filled with the colour and glitter of, for example, a state banquet in St George's Hall or a procession of Knights of the Garter.

The sense of continuity is the essence of an hereditary monarchy and the wish of so many of these designers to "bring light colour and change" into the castle may be almost as destructive as the intrusion of the media. There should be an element of poetry about any scheme for what has been described as "the most romantic castle" and that is exactly what is missing from so many of the laboured designs in both competitions.

The idea of leaving the Great Hall as a ruin, as proposed by Mr Rowan Moore, does have a certain Gothic romance, but also opts out of the architectural debate. More feasible is the plan by Roderick Gradidge to add a steeply pitched roof to the hall and redecorate in a rich, almost Puginesque manner. One entrant, Douglas Binnie, has combined his talents as an architect and a sculptor in his elaborately iconographic schemes, and his Country Life entry is one of the best presented.

Of the 10 Girouard schemes, only two are remotely workable. One is Richard MacCormack's bronze and timber roof, inspired by but not imitative of the original Gothic roof of St George's Hall; and the other is by Michael Hopkins, who saw the decorative potential of the motif of the Garter Star.

There is, inevitably, a committee to discuss the restoration plans for the castle. A decision is already made to rebuild the chapel area in a contemporary way. This area, where the fire began, was a remodelling by Sir Hugh Casson of the 1842 chapel by Edward Blore. Whether a private chapel is needed at this point in the castle's history may be debatable.

The committee may decide to build a modern roof on St George's Hall and they would be foolish to overlook the wonderful timber designs of the Hungarian architect Imrie Macovecz. He designed one of the best pavilions ad Seville's Expo 92 and his work is remarkably original.

The committee will have the benefit of the experience of the National Trust who are currently rebuilding Uppark in Sussex after a disastrous fire. They will also take advice from those responsible for the recent excellent restoration of Hampton Court.

The real opportunity offered by Windsor is involve in the restoration the expertise of those responsible for the Royal Collection who made such a splendid job of the refurbishment of Frogmore in Windsor Great Park. With the gentle help of one or two good architects, Windsor should be restored very much as it was.

Mark Girouard's agreeable book tells us something of the story of life at Windsor. But his selection of contemporary architects and winners of Country Life competition demonstrate that the modern imagination cannot deal with either the romance of the castle or the appropriate panoply for the home of the head of state.

Windsor, the Most Romantic Castle, by Mark Girouard, Hodder & Stoughton, £20.

Exhibition at the Architecture Foundation in Bury Street, St James's, London SW1, until August 29th

Continuity is the essence of an hereditary monarchy, so Windsor should be restored as it was. Queen Elizabeth, the Queen Mother, stands with the present Queen and Princess Margaret and corgi on the steps in the East Garden, July 1941, in an illustration from Mark Girouard's book

London Promenade Concerts

Elektra

Big choral works have often opened the first night of the BBC Proms season, but this year the director, John Drummond, chose an opera. On Friday, we had a concert performance of Richard Strauss's *Elektra*, which left the stalwart BBC Singers to sit patiently for the better part of two hours before they got anything to sing. But the principals need to be leather-lunged, inexhaustible; and on that score the international cast could not be faulted.

Nor, really, on anything else that mattered: any leading opera house would be proud to have such a team. If this was not the most memorable *Elektra* you might hear, it was impressively strong and balanced. Andrew Davis, who has become a notable exponent of Strauss's more lyrical operas, conducted the BBC Symphony.

In two or three places, one missed the vicious edge that can sharpen the horrific goings-on, and though Davis built the final catastrophe effectively, the gross, hysterical exuberance of Elektra's triumph-dance was a trifle tame. On a lucky night, once the murders are accomplished the music can seem to hurl itself unstoppably forward into fatality; the Davis reading was too nicely controlled for that.

More attention to the "semi-staging" would have been wise. Nobody was credited for it in the programme, and the singers seemed to have been left to improvise it, with some odd results. When Elektra should be scrabbling in the earth for the buried axe – not easy to do on a carpeted platform! – Marilyn Zschau seized the chance, understandably, to gulp some water: our heroine seemed to be pouring herself a stiff drink before getting on with the matricide. The Aegisthus, William Cochrane, walked slowly with a cane, and was still visible on the exit stairs when he was meant to be in the throes of assassination.

Cochrane was nevertheless excellently tetchy and dignified. As Clytemnestra, his partner in guilt, Eva Randova wielded pungent, edgy tone – not a contralto bellow – to make the most of the Queen's darting slyness and baleful suspicions (and supplied blood-curdling offstage death-cries). Much to her credit, she disdained any campy grotesqueries. The first words of Willard White's bass-baritone Orestes administered one of the dramatic thrills of the evening: that doomy, implacable sound was perfect, and White sustained it up to his measured departure, murder-bent.

The central sisters, Miss Zschau and as Chrysothemis Deborah Voigt, were visually ill-matched: by rights young Chrysothemis should be vapidly pretty and sweet, and Elektra a haggard, unkempt witch, where Miss Voigt showed us a handsome matron and Miss Zschau a seductive gypsy with chic ringlets and a whole repertoire of balletic gestures.

Still, for a concert performance such quibbles are unimportant. More to the point, Voight's Chrysothemis was gorgeously sung – impeccably musical, subtle with details, the voice glowing confidently to the end. Until the confrontation with the Queen, I thought Miss Zschau's hard-ish timbre might be too unvaried (and her German consonants too biteless) to make a complete Elektra. With her feral vision of Orestes hunting Clytemnestra through the palace corridors, however, the portrayal took fire. The voice opened out excitingly; in all the rest of the opera, the wild veerings between joy and despair were splendid, and her dramatic pacing (except for that little drink) utterly assured.

David Murray

Avignon Festival

Adam and Eve in the Garden of Lenin

ONE OF the most interesting productions of this year's Avignon Festival, which continues until August 2, is a French version of Mikhail Bulgakov's play, *Adam and Eve*. It is performed in the courtyard of Sainte-Marthe Hospital by a company from Nancy Lorraine under their director, Charles Tordjman.

The play was written in 1931 when Bulgakov, aged 40, supposedly still under the protection of Stalin, was having his work shelved by the various state theatre companies to which he was attached.

Commissioned as a play about a future war, *Adam and Eve* was never produced during the author's lifetime. Seeing it more than half a century later, one can understand why. The play predicts the complete collapse of the communist system and looks to an era when co-operation with the West and shared scientific knowledge is the only road to survival.

The piece begins conventionally enough in a communal apartment in Leningrad where a young engineer, Adam, is celebrating his marriage to Eve, a foreign language student.

Their honeymoon proves short-lived, as the apartment is invaded by a distraught professor of chemistry, who is fleeing from a young thug who has set upon him in the street. He turns up too, and is soon joined by a fighter-pilot, who is a dedicated communist, and by a hack novelist.

As they all quarrel angrily, it seems as if we are in for a comedy about shared domestic space under communism, one of Bulgakov's favourite themes. But there is a more sinister undertone: the scientist is behaving very oddly, even for an absent-minded professor. He carries a curious-looking camera with which he photographs the married couple, enveloping them in a sinister green glow, and he mutters incoherently about the danger of poison gas causing universal disaster.

Puffing furiously at his cigarette, the French actor, Daniel Martin, captures brilliantly the attitude of a man forgetful of his present situation but deeply concerned about the long-term one. Hardly are the words out of his mouth, when what he has prophesied comes to pass. A wave of poison gas fumes – shades of Chernobyl! – sweeps across the city, then the entire country, and everyone – well, almost everyone – is destroyed.

This catastrophe is represented on stage by an instant change of scene in which the apartment building collapses and we are confronted by one of the main shopping streets, strewn with rubble and corpses, wreathed in smoke.

Luckily, Adam and Eve have survived to inhabit a world like that after Hiroshima, and so has the professor. His camera was really a secret weapon with which he could close up the cells of the body and make them impervious to the noxious gas.

Thanks to a series of fortunate accidents, all the other main characters we met in the first act remain alive, if not exactly well. From here, the piece becomes an exploration of the strategy of survival, well acted all round, the company seizing the comedy as well as the pathos.

I was reminded at times of Shaw and also of *The Admirable Crichton*, as the absent-minded professor turned into the strong man who keeps the group together and wins the love of the most earnest, feminist Eve (Aude Briant) during a sequence of stimulating discussions.

I would have been content to leave it there, with Eve replacing the professor's dog, who has been killed in the holocaust, as his love object, and the professor replacing Adam as hers – a conclusion prefiguring Bulgakov's major novel, *The Master and the Margarita*. But the director seemed to think that the work needed updating and encouraged the translator, Bernard Noel, who does a fine job in that role, to write an epilogue that was performed immediately after the author's text. Here, the maid, who died, is reincarnated as the professor's animal friend (an idea borrowed from Bulgakov's satirical story, *Heart of a Dog*).

This seemed an unnecessary extra course to the meal. Without it, the evening was complete and admirably adventurous, much in line with the general policy of Bernard Faivre d'Arcier, who has been reappointed as the Festival's artistic director in succession to Alain Crombecque.

D'Arcier believes that the Festival should take the initiative in promoting productions that extend the boundaries of theatre and dance as art-forms. In a period of tightening purse-strings for the Festival, he has set aside a fund of FFr3m for this purpose.

Other efforts in this direction include a collaboration between a number of groups from all over the world, including Britain, under the heading Dark/Noir. They are all to be seen in the Aubanel Gymnasium, where presentations at different levels of the building explore the world from the point of view of the sightless and the partially sighted.

As Michel Reilhac, the overall director of the project, explains, the audience is deprived of the tyranny of sight – blind people act as guides at one stage – in order that it may achieve a renewed mastery over its perceptions.

Also running throughout the whole Festival is a tour de force in the Cloister of the Carmelites, by Philippe Caubért, who worked with Ariane Mnouchkine for a number of years, telling the story of his life in fictional form on stage as *Le Roman d'un Acteur* through improvised dialogue and exaggerated mime.

Thus, in spite of a falling number of visitors, a wobbly franc and an aggressive mistral, the Avignon Festival still flourishes as it moves inexorably towards its 50th birthday.

Anthony Curtis

Dublin Theatre

BILLY Roache made his name as a playwright at London's Bush Theatre with a trilogy about his native Wexford. *The Cavalcaders*, commissioned by the Abbey Theatre for their small stage, The Peacock, is his first play to open in Ireland.

The Cavalcaders are a quartet of barber-shop singers who work together by day in a Wexford cobblers and perform in local bars by night, dressed in matching red dinner jackets. Roache's interest in memory – is indicated before the play starts by his familiar device of filling the auditorium with vintage pop music, most significantly, the chorus "Can't Get Used to Losing You".

As the play opens, a glum figure in a raincoat, Terry, is handing over his shoe repair business to a younger man, Rory, who plans to modernise it. The set, by Frank Conway, is highly evocative: a battered Victorian cobbler's bench, massive old machinery, dirty coffee mugs and dusty, string-tied bundles of shoes dating back years. In these unlikely surroundings Terry relives the heyday of the quartet before the departure of the other two members, Josie and Ted.

Sudden changes of lighting (designed by Trevor Dawson) indicate leaps back in time. We see Terry at the age of 44 brutally ending his affair with Nuala, a warm and vulnerable 22-year-old, recently released from the "funny farm". He would be better suited to the more mature Breda, who drops in to listen to rehearsals, but he has never recovered from his wife running off with another man.

It takes some time to realise that Terry, easily the dullest of the four men, is actually the central character. Rory and Ted stick in the mind only as "the good looking blond one" and "the one who plays the piano". Rather unexpectedly, Ted runs off with Rory's wife in a sketchy sub-plot.

However, all three are overshadowed by the fourth member of the quartet, Josie, a jaunty provincial corner-boy who dies young, presumably from cancer. Josie is played by Billy Roache, his thin angular frame, foxy face and receding hair giving credence to this quick-witted, tabloid-reading, pint-drinking chancer. But that Josie is so likeable and also "doomed" distracts from the central drama, which, unfortunately, is Terry's.

His rejection of Nuala led, he believes, to her suicide. But he is also mourning the disappearance of the community he knew as a child, when The Cavalcaders were the pride of the neighbourhood.

Nuala is played with heart-aching naivety by Marie Mullen, and Breda (who eventually ends up living with Terry) is given a sad dignity by Aisling O'Sullivan. But ultimately the women contribute little, as they are seen only as Terry's girlfriends.

For all the technical achievement of the writing, the play is disappointing, and oddly unsatisfying. Terry, a selfish emotional cripple, never grows or changes. There is little or no sense of the claustrophobia of the dead-end small town which electrified the Wexford trilogy, nor, apart from Josie, any truly memorable characters.

It is not often an author upstages his own play, but Billy Roache has done it here. See it for his dazzling performance, but don't expect too much else.

Alannah Hopkin

■ *City of Angels*, the musical which was to close early on August 7, has won a reprieve and will continue at London's Prince of Wales Theatre.

Written by Cy Coleman and Larry Gelbart, it was enthusiastically reviewed when it opened in March. But it suffered from a lack of advance bookings and the early closure was announced last week. A surge of interest followed and *Angels has been playing to packed houses.*

Prince of Wales. (071) 839 5987

INTERNATIONAL ARTS GUIDE

■ BERLIN

THEATRE

Neil Simon's play Runaway can be seen daily at Komödie (882 7893). The new Marlene Dietrich musical can be seen daily except Mon at Theater am Kurfürstendamm (300 6000). Metropol Theater has the Broadway musical 42nd Street daily till Sun, followed by a run of West Side Story opening July 27 (2036 4117). Open-air repertory at Freilichtbühne an der Zitadelle includes Schiller's The Robbers and Shakespeare's A Midsummer Night's Dream (331 6920)

CONCERTS

Choir of Ormond College presents a programme of Bach, Poulenc and Nunn tonight at Epiphanienkirche (302 3313). Nigel Kennedy and band play at ICC on Sat (6959 5959). Placido Domingo gives an open-air concert next Mon at Waldbühne (301 5055).

■ FRANKFURT

● Britain's Royal Ballet is in residence this week at the Opera House, opening tomorrow with Anthony Dowell's production of Swan Lake starring Sylvie Guillem and Jonathan Cope. There will also be three performances of a mixed bill featuring works by MacMillan and Ashton (236061).

● Jazz im Palmengarten: Frankfurt's summer series of open-air concerts features Canadian saxophonist Jane Bunnett and her quintet on July 29, and German trombonist Albert Mangelsdorff and his trio on Aug 12. Concerts begin at 19.30 at the Musikpavillon, or if raining at the Palmengarten Gesellschaftshaus.

■ GENEVA

Hôtel de Ville Tonight: jazz concert by Jimmy Smith Quartet. Tomorrow, Wed, Thurs, Fri: Geneva Chamber Opera presents Scarlatti's Il trionfo dell'onore. Next Mon: Stephane Grappeli 85th birthday concert (312 4353)

Théâtre de Verdure Wed: Tania Maria New Vogue, Brazilian jazz. Fri: Claude Bolling and his orchestra, French jazz. July 28: flamenco concert (386 3876)

■ HAMBURG

● The Kampnagel experimental theatre festival includes a Hebrew-language show entitled Arbeit Macht Frei staged by a group from the north Israeli port of Akko (daily except tomorrow and Sat), the South African Handspring Puppet Company in an adaptation of Büchner's Woyzeck (Wed till Sat) and an English-language dance-theatre work by African American author David Rousseve (Thurs, Fri, Sat). The festival, which brings together 22 companies from 18 countries, runs till Aug 7 (270 5627)

● Justus Frantz conducts Royal Philharmonic Orchestra in an open-air concert at Derbypark on Sat (324312)

■ MUNICH

National Theater Julia Varady sings Violetta in Günter Krämer's new production of La traviata, opening on Sun. Repertory also includes Der Rosenkavalier with Lucia Popp and Anne Sofie von Otter, and John Cranko's production of Prokofiev's ballet Romeo and Juliet. Tonight's recital by Hermann Prey focuses on Schubert's Goethe settings. Thomas Hampson gives a recital on July 27. The opera festival runs till Aug 7 (221316)

Cuvilliés-Theater Tonight: members of Bavarian State Orchestra play Brahms' String Sextet No 1 and Mendelssohn's Octet. Fri: Felicity Lott song recital. Next Mon: Felicity Lott and Ann Murray duo recital (221316)

Gasteig Wed: Cheryl Studer sings Italian opera arias. Fri: first in a series of concerts by young instrumental soloists (4809 8614)

■ NEW YORK

THEATRE

● Measure for Measure: opening production of annual free Shakespeare in the Park season. Daily till Sun (Delacorte Theatre, Central Park, near West 81st St, 861 7277)

● Kiss of the Spider Woman: a Kander and Ebb musical, based on the novel by Manuel Puig, directed by Harold Prince, with a star performance from Brent Carver as the heroic homosexual window dresser (Broadhurst Theater, 235 West 44th St, 239 6200)

● Angels in America: the first part of Tony Kushner's epic, freewheeling play about gay life, Reagan-era politics and Mormonism. Not to be missed (Walter Kerr, 219 West 48th St, 239 6200)

● The Who's Tommy: stage adaptation of the classic 1969 rock opera, a collaboration between its original principal author, Pete Townshend, and director Des McAnuff (St James, 246 West 44th St, 239 6200)

● The Sisters Rosensweig: Wendy Wasserstein's play, a comedy with serious undertones, about the reunion in London of three American Jewish sisters (Ethel Barrymore, 243 West 47th St, 239 6200)

● Fool Moon: a comedy with physical humour, chaos and music, written by and starring David Shiner and Bill Irwin (Richard Rodgers, 226 West 46th St, 307 4100)

OPERA/CONCERTS

● Mostly Mozart Festival: André Previn, piano, joins Tokyo String Quartet for tonight's concert. This week's soloists with the Mostly Mozart Orchestra include Itzhak Perlman (tomorrow, Wed) and Vladimir Feltsman (Fri, Sat). Richard Stolzman, clarinet, joins Emerson String Quartet on Thurs for a chamber music recital. Next week's concerts feature Pinchas Zukerman and Alicia de Larrocha. The festival continues daily except Sun till Aug 21 at Avery Fisher Hall (875 5030)

● Kurt Masur conducts New York Philharmonic Orchestra in works by Schumann and Brahms on Wed and Thurs at Carnegie Hall, with Garrick Ohlsson soloist in Brahms' Second Piano Concerto. In next week's concerts, the final in the series, Shlomo Mintz plays Brahms' Violin Concerto (247 7800)

● New York City Opera's 50th anniversary season opens at Lincoln Center on July 28 and runs till November 21. The opening performances are Carmen, La boheme and Madama Butterfly. The first new production is Tippett's The Midsummer Marriage on Sep 9 (870 5570)

JAZZ/CABARET

Blue Note US debut of Brazil's Nana Caymmi Quintet, daily till Sun. Next week: Gato Barbieri. Dining (131 West 3rd St, 475 8592)

Rainbow & Stars A summer-long Lerner and Loewe revue entitled The Night They Invented Champagne is currently under way. Daily except Mon (30 Rockefeller Plaza, 632 5000)

■ PRAGUE

● This week's music programme includes an outdoor concert by Czech Brass Quintet on Wed at Valdstejnska Zahrada, a recital of Mozart, Schubert and Dvorak by Wihan Quartet on Thurs at Prague Castle, and a late afternoon recital of Bach, Handel and Myslivecek by Perikl Trio at Lobovicky Palace on Sun. Tickets from FOK, U Prasne brany (232 2501)

● Prague Festival Ballet, a young independent company led by David Slobaspyckyj, presents a triple bill on July 28 and 29 at Palace of Culture, prior to a British tour. The programme includes a new Slobaspyckyj ballet entitled Love Lessons, set to music by Manuel Ponce. Tickets from Bohemia Ticket International, Na Prikope 16 (228738)

■ VIENNA

● Vienna's summer dance festival at Volkstheater opens on Sat and Sun with performances by Jean-Claude Gallotta and Groupe Emile Dubois from Grenoble. Other guests include Trisha Brown Dance Company, Stephen Petronio Dance Company and Finnish National Ballet. The festival runs till Aug 8 (935558)

● A staging of La fede sacrilega, a long-forgotten opera by early 18th century Viennese composer Johann Joseph Fux, is this week's highlight in Vienna's summer music series (tonight, tomorrow, Thurs, Sat at Universitätskirche. Other events include a programme of Gruber, Schwertsik and Cerha directed by K.H. Gruber on Wed at Rathaus, a piano recital by Norman Shetler on Fri at Raimund Theater and a performance of Mahler's Seventh Symphony by Gustav Mahler Youth Orchestra under Riccardo Chailly at Konzerthaus on Sun. July 28, 29, 30: Michael Tilson Thomas conducts London Symphony Orchestra (4000 8410)

● The season of open-air performances in the palace gardens of Schönbrunn runs till Aug 14 and features Don Giovanni and Moscow Chamber Ballet's staging of Mozart's Requiem (513 0851)

ARTS GUIDE

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Wednesday: Festivals Guide.
Thursday: Festivals Guide.
Friday: Exhibitions Guide.

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The best judges

Hugo Dixon argues that beneficiaries should control their pension schemes

Who should control Britain's occupational pension schemes, employers or the schemes' beneficiaries?

This question is one of the central tasks facing the Goode Committee, which was set up by the government to review pension law following the Maxwell fraud and is due to report in the autumn. How the question is answered will have wide ramifications not only for people's pensions but also for their careers.

Presently, control of schemes and their estimated £500bn in assets lies with employers. They decide contribution and benefit rates, appoint trustees, determine investment policy and retain the right to wind up schemes. Current and prospective pensioners – the "members" – have little or no say over how schemes are run, despite saving large proportions of their income through the schemes.

The debate on occupational pension reform has concentrated on devising measures to prevent fraud and compensate its victims. While this is essential, a bold reform would also transfer control of schemes to their members who would then elect trustees and vote on how schemes should be run. The case for doing so is strong.

At present, most schemes operate on a "final salary" basis – meaning members' pensions are based on the size of their final salaries and the number of years worked for the company. Companies underwrite the schemes, topping them up when investment returns are bad and stopping contributions when performance is good.

Such a system would be suitable if people spent their whole working lives with a single company. But this is increasingly rare, as people move jobs to develop their careers, take periods out of work to bring up children, lose their jobs through redundancy, switch to part-time work or are forced into early retirement. And, unless people remain as full-time employees with a single company all their working lives, their pensions can be substantially reduced under final salary schemes.

Democratic control of schemes by their members would lead to a more flexible and equitable way of determining the size of pensions, if only because employers would no longer be willing to underwrite schemes which they did not control. Instead of making variable contributions according to whether schemes were in surplus or deficit, companies would probably move to contributing fixed proportions of employees' salaries. As a result, pensions would be related to the size of individual contributions as is now the case with personal pension schemes rather than salaries.

Such a move would give members greater freedom to tailor their pensions to suit their individual circumstances. For example, they would be able to vary contributions according to what they could afford at different periods in their lives and to stay in schemes if they moved jobs, were made redundant or took career breaks.

The case for transferring control of schemes to their members is strong

Relating pensions to the size of contributions would also be fairer. Those who left companies before official retirement ages would no longer subsidise those who stayed the full course, in particular top executives whose pensions are sometimes artificially boosted by large salary increases immediately before retirement.

A further advantage of transferring power to members would be to eliminate the conflict of interest between an employer's role as custodian of members' interests and its duty to promote shareholder value.

Conflicts do not only exist in extreme cases such as the Maxwell fraud. The wide discretion companies possess over managing schemes ensures there are many legal ways of running schemes to enrich shareholders rather than the schemes' beneficiaries. Companies can, for example, claw back surpluses, use schemes to finance redundancy programmes or fail to increase pensions in line with inflation.

Transferring power to members would not end all conflicts of interest. For example, those nearing retirement might prefer low-risk investment strategies to be adopted, while younger members might want riskier but potentially more rewarding approaches. But at least such conflicts, currently decided behind closed doors, would be debated openly in a more democratic system.

Employers might even welcome a dilution of their control. Given that many are having to start making contributions again now that most pension fund surpluses have shrunk, companies might embrace the opportunity to limit their liabilities by moving to a system of fixed contributions.

But the pensions industry would resist transferring control of schemes to members. It would be quick to point out the uncertainties such a democratic revolution would introduce for employees. In particular, without employers underwriting schemes, pensions could be at the mercy of day-to-day stock market fluctuations.

Employers' willingness to cushion the effect of market fluctuations is an attractive feature of the current system. But employers' fears that transferring control to members would expose them to huge risks are alarmist. There are many ways of hedging, insuring and pooling risks, while financial markets are continually adept at devising new ones.

Strategies to limit risk would clearly not provide members with total protection in the event of extreme movements in financial markets. But it would be disingenuous to pretend that the current system provides members with copper-bottomed guarantees either, as Maxwell pensioners know only too well.

In any case, the argument for democratic control of pension schemes as with democratic reform in any field is not that it would eliminate risk. It is rather that people should be free to decide for themselves how their pensions should be managed because they are ultimately the best judges of what is in their interests.

Bavaria's radical new premier plans tough action to restore the state's fortunes, says **Quentin Peel**

In search of that old Strauss magic

The headline in Munich's *Süddeutsche Zeitung* said it clearly enough: Bavaria is selling its family silver.

Within a month of taking over as prime minister of Germany's prosperous and independent-minded "free state" of Bavaria, Mr Edmund Stoiber, a former state interior minister and law-and-order crusader in the ruling Christian Social Union, appears to be hell-bent on privatising his government's most profitable shareholdings.

Large strategic stakes in Bayernwerk, one of Germany's big three energy utilities, and Deutsche Aerospace (Dasa), the Daimler Benz aerospace subsidiary which contains what used to be Messerschmidt, are to be sold off. The state's one-third share in the Rhine-Main-Danube canal company is another candidate for disposal, along with a host of smaller holdings in areas such as energy and waste disposal.

Mr Stoiber hopes to raise DM2bn-DM3bn from the process. While other Länder, and the federal government itself, are merely muttering about a new phase of privatisation, Bavaria looks set to start.

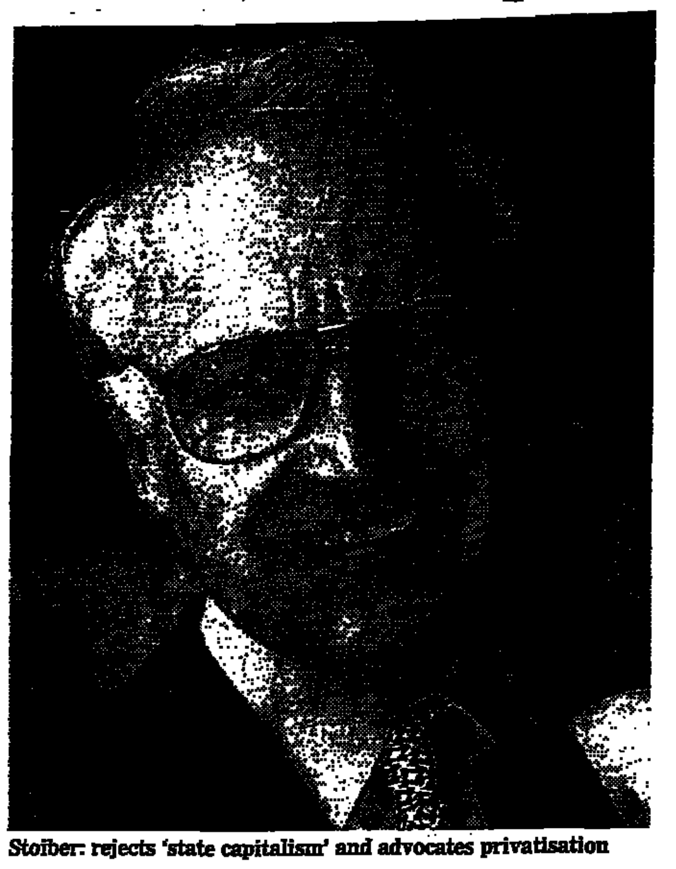
The state premier also announced that all political privileges for government ministers and senior officials are to be abolished: everything ranging from free seats at the Bavarian state opera to salaries for lucrative seats on company supervisory boards, must in future be accounted for and, where necessary, repaid to state funds.

It is the most radical step in Germany so far to counter the wave of public disquiet over endless petty scandals in ministerial offices. In recent months a string of leading politicians have been forced to resign. The most recent was Mr Stoiber's predecessor, Mr Max Streibl, who admitted taking holidays at a business friend's expense.

Mr Stoiber's move also strikes at the heart of the cosy relationship enjoyed by business and the political establishment in Germany, and in Bavaria as much as anywhere.

It is enough to make Mr Franz Josef Strauss, the father of Bavaria's postwar economic revival, promoter and close patron of its defence and aerospace industry, and prime minister until he died in office in 1988, turn in his grave. Or perhaps it is precisely what he would have done.

For Mr Stoiber is the man who probably more than any other was Mr Strauss' closest confidant over his last decade in power. First as secretary-general of the CSU, then as head of the state chancery, and finally as minister of state in the prime minister's office, he was often the mouthpiece of his master in his negotiations with Bonn and the other federal states.



Stoiber: rejects 'state capitalism' and advocates privatisation

Today he is attempting to bring a little bit of the Strauss magic back to Munich, where the sharp downturn in the German economy, the costs of unification and severe cuts in the federal government's defence budget are undermining Bavaria's own success story.

Worse still, for a politician, Mr Stoiber's ruling CSU is in danger of losing its absolute majority in the state parliament in next year's elections. It faces an erosion of support both to the Social Democrats on the left, and to the far-right-wing Republicans. And it is facing up to the humiliating possibility that it might fail altogether to win any seats in the European Parliament, because its shrinking provincial base is not enough to guarantee it the minimum national vote of 5 per cent.

Germany faces no fewer than 19 European, national, state and local authority elections next year, and three concern Bavaria directly. Mr Stoiber believes they will be decided by two issues: the economy and internal security, including the highly-sensitive issue of immigration. On both issues he faces a big challenge.

Bavaria remains one of the wealthiest states in the federal republic, thanks to the range of modern industry which Mr Strauss successfully enticed, browbeat or simply bought with straight subsidies to come to his home state.

The defence industry has been as badly hit as any by the recent budget cuts and the economic downturn. Dasa alone has said it will lay off some 8,000 workers. But Mr Stoiber knows that the economic challenge is more profound.

"What we have today is not a normal recession, but a structural recession which we would have had to overcome even if there had not been unification," he says. "You have the same problems in Britain, France or Sweden. But we have the low-wage countries on our very doorstep."

Mr Stoiber's answer is to relaunch the drive to promote an indigenous high-tech industry, focused on small and medium-sized enterprises – Germany's famed *Mittelstand*. And that is precisely where he plans to put the funds he can raise from privatisation.

Franz Josef Strauss, the father of Bavaria's economic revival, would approve of Stoiber's motives

"It is not just a question of our financial problems," he says. "It is a question of principle for me. We don't want state capitalism here. I am a great supporter of privatisation."

He recognises that the state's 58 per cent stake in Bayernwerk played an important role in Bavaria's economic success. For the Bavarian government ensured that electricity supplies were switched steadily from reliance on expensive coal from the northern Ruhr, to first oil and now nuclear power. With two-thirds of its power from that source, Bavaria now has the cheapest electricity in Germany.

The change is that the European energy market is opening up, and other producers, such as France, are offering cheap supplies. "It is no longer necessary to have a state energy policy operated through one's own energy company," Mr Stoiber says. He may be a bit disingenuous. The plan is gradually to merge Bayernwerk with Viag, the Bonn-based conglomerate which is already a minority shareholder. In return, Mr Stoiber expects Viag to move to Munich. And for the time being, the state will retain its 25.1 per cent stake in Viag.

Privatisation is only one radical answer to the problems of Bavaria and the CSU. The latest polls show the ruling party languishing on about 43 per cent of popular support – down almost 12 percentage points on the 1990 election – with the SPD, the real challengers, up to almost 33 per cent.

Yet the Republicans, on the far right, are the real threat to the CSU's traditional conservative heartland. They are both anti-immigration and anti-EC. The former is one clear reason why the party opted for Mr Stoiber over the more middle-of-the-road Mr Theo Waigel, the finance minister in Bonn and party leader.

The Bavarian premier certainly does not mince his words on questions of immigration. "We are not an immigration country," he insists. "That would result in a multicultural society. And a multicultural society would be a terrible thing."

And yet he is not a fanatical nationalist. Like Mr Strauss, he is a convinced European, although he believes the Maastricht agenda for a single currency is far too optimistic.

"Economic and monetary union will not come about this century," he says. "The convergence criteria are the main barrier, and they must not be changed. In the foreseeable future, no member state will be able to meet them."

In some ways, Mr Stoiber sounds almost like a sceptical UK conservative. He is a critic of excessive Brussels decision-making and believes the EC should go slow on institutional integration, and concentrate on enlargement.

Mr Stoiber says the Republicans have lost much of their grounds for criticism with the tougher restrictions on asylum-seekers, which came into effect on July 1. He played a big part in drafting the measures in Bonn, as state Bavaria's interior minister.

Yet perhaps the greatest threat he sees to all the traditional political parties is the growing public apathy and alienation from the political process. That is why he has seized the political initiative so swiftly, both on privatisation and privilege. Even if he is selling off the family silver, Mr Strauss would probably have approved of the motive.

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL
Fax 071 873 5938. Letters transmitted should be clearly typed and not hand written. Please set fax for finest resolution

The real role of the trade association

From Mr Robert Cook.

Sir, In his excellent article on trade associations ("Lobbying not worth a button", July 15), Andrew Taylor puts a very persuasive case for Britain's 2,000-plus trade associations to modernise and become more effective in both the lobbying process and in the range of services they provide to their members.

The gist of a speech by Mr Michael Heseltine, the president of the board of trade, about trade associations to the Confederation of British Industry in June was that, from a DTI standpoint, too many associations are narrowly focused, poorly resourced and ill-equipped to help the industries they represent become competitive. He therefore specifically welcomed developments in the chemicals and electronics sectors, where there have recently been a number of trade association mergers, as examples of what should be happening more widely across industry.

It is certainly our experience in the Electronic Engineering Association that there is a "critical mass" below which it is impossible for a trade association to provide sufficient resources to maintain effective contacts with government, Brussels and the many other national and international agencies which today affect the business environment in which member companies operate. We therefore strongly support Mr Heseltine's call for the development of a single, well-resourced trade association to represent each big sector of industry.

The EEA itself is the result of a number of mergers. It will enlarge again by joining the Electronic Components Industry Federation to form a new Federation of the Electronics Industry on January 1 1994. The FEI will have more than 300 member companies and provide a powerful focus for telecommunications, information technology, defence electronics, business equipment, office products and electronic components elements of the electronics industry.

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director-general,
EEA,
Russell Square House,
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London WC1B 5EE

From Mr Barry Higgs.

Sir, Andrew Taylor draws attention to the large number of trade associations and the intention of the president of the board of trade to limit the number with which his department has contact.

Some reduction might be appropriate, but we should bear in mind that it is the member companies of these associations which pay the bills and decide what they need in their dealings with UK government departments. Most up-coming legislation emanates from Brussels in any case and, in today's complex environment, expert knowledge from specialist groups is critically important if the wealth-makers in our society are not to be disadvantaged.

Larger, more generalist, associations such as the Confederation of British Industry have an important role in influencing the general business climate. Similarly, the Chemical Industries Association represents its manufacturers in respect of their processes and practices. This leaves the sectoral associations to promote the interests of the particular product groups.

It would be a pity if the DTI's work for British industry was to be inhibited by a doctrinal handicap.

Barry Higgs,
director-general,
The Fertiliser Manufacturers Association,
Greenhill House,
Thorpe Wood,
Peterborough PE3 6GF

From Dr Michael G Burcher.

Sir, The principal role of a trade organisation is to do those things which member companies believe is most beneficial to their industry. It is not necessarily to lobby government on legislation and likely changes of policy. And size does not necessarily equate with effectiveness.

The Galvanizers Association meets the DTI's criteria for a "lead association" and the DTI acknowledges this to be so. But four years ago the association separated from an existing confederation and established a clear and separate identity. We took the opportunity to establish focused programmes operated by a professional, well-qualified and properly paid staff. Industry participants, including suppliers, have committed substantial financial resources to a range of programmes in which marketing and technical support to the market-place predominate. When we deal with the UK government we seek constructive dialogue; when we deal with the European Commission we act with our EC counterpart organisations through established channels in Brussels.

An aspect of Mr Heseltine's speech which was less well reported was his announcement of a benchmarking challenge, in which industry associations will operate "benchmarking clubs" to help businesses improve competitiveness.

If the same principles were applied to industry associations we would see the emergence of powerful, well-resourced and fully-effective organisations with improved quality of lobbying in Whitehall and Brussels. This is just what Mr Heseltine wants. Such groups would also command stronger industry support because they would provide better value to the subscription dollar.

Michael G Burcher,
general manager,
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56 Victoria Road,
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A Nobel prize for Bhagwati

From Mr Onésimo Alvarez-Moro.

Sir, Samuel Brittan believes that neither academic macroeconomists nor economic commentators have been at the forefront of the trade debate ("Trade and macroeconomics", July 12).

He need look no further than the FT's own pages to see that Prof Jagdish Bhagwati has been the most lucid, jargon-free and easy to understand academic that one could possibly hope to read. Prof Bhagwati was even adviser to Arthur Dunkel, the recently-departed head of the General Agreement on Tariffs and Trade.

Indeed, such is his patience and commitment over the years that the so-called free trade exceptions outlined by Prof Paul Krugman and others have been consistently shown to be a re-hash of the same old protectionist arguments.

Prof Bhagwati deserves a Nobel prize for patience for being there when needed to knock fatuous protectionist arguments on their head. He also deserves the Nobel prize for economics for his many years of clear thinking.

The free trade area is badly in need of this award, given the knife-edge which we are currently on in the Gatt negotiations.

Onésimo Alvarez-Moro,
Pontejos, 2, 2 Puerta 6,
28012 Madrid,
Spain

Price for water must be paid

From Dr A R T Kemasang.

Sir, You leader, "The value of clean water" (July 14), is both one-sided and myopic. It is one-sided for looking at the question of value in strictly limited financial terms. Although the FT is a financial paper, it is still taking too much liberty in assuming that all of its readers are no more than financial zombies. To some, probably many, questions of "cost" and "price" are woefully one-dimensional. They also pale into insignificance when addressed in context – ie, without ignoring such questions as our health and that of future generations.

It is myopic for missing the opportunity to put the priorities right. The "huge sums involved" in bringing our water up to par with the rest of the EC is surely the price we pay for neglecting its upkeep for so long. You don't have to be a financial genius to know that it is a matter of time before the price has to be paid.

Why put our health and that of our children to more unknown risks by postponing further the unavoidable? For a postponement of the inevitable, in the form of longer time to meet the directives, is all we are likely to get. And while we're "renegotiating" EC directives the price in terms of our health keeps mounting.

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FINANCIAL TIMES

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Monday July 19 1993

Japanese confusion

THE JAPANESE election result contains no big surprises, at least for those who have followed recent opinion polls. The Liberal Democratic party which has governed the country since 1955 has lost its overall majority, but remains easily the largest party. In fact its relative dominance has been increased by the collapse of the Social Democratic party, hitherto the main opposition. The three new parties advocating political reform have done well – especially Mr Tsutomu Hata's Japan Renewal party – but their success has been gained more at the SDP's expense than at the government's. Clearly the SDP's themes and style, essentially those of the old left, no longer seem relevant to those Japanese voters who are keenest for political change.

The short-term outcome will almost certainly be a coalition led by the LDP and including one or more of the new parties. But it may take weeks to emerge, as there is bound to be intense bargaining over both policies and cabinet posts. Meanwhile Japan has reported a big increase in its trade surplus during the first half of this year. A period of political uncertainty at this point will be irritating to its trading partners, since Japan will presumably lack a government with the authority either to make new trade agreements or to pre-empt foreign pressure with measures to boost domestic demand such as cuts in income tax and in interest rates – which would be far preferable to agreements on specific imports.

Balance of power

But even that consequence is not certain. During the election campaign the outgoing Miyazawa government, generally perceived as a discredited lame duck, defied conventional wisdom by reaching both multi- and bi-lateral trade agreements. One of the biggest problems for outsiders dealing with Japan is, precisely, to discern where power really lies. The present system neither reflects the real relationship between different centres of power, nor gives effective voice to the changing balance of sentiments and aspirations among the population. The election campaign, including that of the reformers, illustrated all too clearly how opaque and idiosyncratic Japan's political style remains. Consequently one of the main hopes from any reform must be that it will bring greater transparency, as well as greater decisiveness.

A more transparently run Japan would be easier to understand and to do business with. A more decisively run Japan would be better equipped to deal with the structural blemishes on its economy, and to confront the external challenges the country now faces: the changing relationship with a US which may not be so committed to holding the security ring in Asia for ever; the evolving foreign and defence policy challenges in Asia itself; and the pressure for Japan to match its economic power with a stronger international role.

Political division

The question is what bearing the election result has on all this. The heavy socialist losses and the success of the new pro-reform parties do at least suggest that the old left-right divide in politics is being replaced by a new fault line between conservatives and modernisers. But that will not quickly, or perhaps ever, be reflected in a clear-cut division between political parties. Not all the conservatives are in the LDP, and by no means all the reformers are in the new parties. Indeed, perhaps the greatest danger to the interests of reform lies in the possibility that the LDP's electoral performance – in all the circumstances a remarkably resilient one – might strengthen the hand of conservatives within the party. And a resumption of faster growth could easily boost support for the LDP again, thus leaving in place the cosy bureaucracy/business condominium which has ruled Japan since the 1950s.

One effect of this would probably be further defections from the LDP, in the midst of a bitter argument about electoral reform. The parallel with recent events in Italy is obvious, and not necessarily encouraging. Indeed, in one respect Japan has moved closer to the pre-reform Italian situation: its dominant party will now be racked not only by internal faction-fights but also by constant wrangling with coalition partners.

At best, Japan will gradually conjure from this confusion a more efficient and more genuinely representative political system. But it will hardly do so quickly, and maybe not at all.

The cost of nuclear power

THE GOVERNMENT will shortly announce the terms of reference for this autumn's review of UK nuclear power industry. This is an important moment for energy policy because it will determine whether Britain advances further down the nuclear route, whether it pauses or even retreats. At the moment, only one nuclear station, Sizewell B, is being built, and no others have been authorised. Many first-generation nuclear reactors will reach the end of their lives during the 1990s, and decisions will have to be taken soon if they are to be replaced.

The indication from the Department of Trade and Industry is that the review will focus narrowly on the economics of nuclear power. This is partly because last winter's coal crisis aired many of the wider issues in Britain's energy debate, such as the need for a more active energy policy (answer, no), and the diversity of Britain's energy supplies (which was found to be adequate). Furthermore, only one question needs answering, and that is whether the future development of nuclear power can be financed by the private sector, since the government has no intention of doing it.

This makes a refreshing change from the approach of earlier governments which handed huge subsidies to the nuclear industry for a variety of ill-founded reasons, and landed the electricity consumer with large bills which are still being paid.

City's help

But much will depend on how the question is asked. If the government is only interested in whether the City would put up £3bn to build Sizewell C tomorrow, the review will be a waste of time since the answer is clearly No. Only three years ago the nuclear sector had to be cut out of the electricity privatisation programme because investors would not buy it. The situation is not much different today. Nuclear Electric and Scottish Nuclear, the two state-owned utilities which own most of the nuclear power stations in Britain, have made headway in reducing their costs. But nuclear power is still a long way from the point of being commercially financed.

The more interesting question is whether the economics of the nuclear industry reflect the full costs and benefits of running nuclear power stations, including external environmental costs, and if not, how these should be factored into the calculations so that a better judgment can be made.

Decommissioning costs

For example, the City's uncertainty about nuclear centres largely on the question of decommissioning costs – for which there are few reliable calculations – and waste disposal. The review must get to grips with these numbers and come up with fuller answers than were produced by the recent National Audit Office report. It also needs to unravel the economics of waste disposal, including Thorp, the nuclear reprocessing plant, whose costs have a strong bearing on the performance of the nuclear operating companies.

By the same token, the review should consider the environmental advantages offered by nuclear power, which does not emit carbon dioxide or sulphurous gases. Given the UK's international commitments to clean up its atmosphere, this is a measurable benefit: the more nuclear power stations, the less need to invest in a costly clean-up of conventional stations. However this advantage does not currently help nuclear's commercial case because it is not reflected in the cost structure of nuclear projects.

This is not a reason in itself for invoking the national interest yet again on nuclear's behalf. But it does point to the need for a more thoughtful way of calculating environmental benefits and factoring them into the appropriate accounts.

Britain has a surplus of generating capacity and an abundant supply of energy sources, not least of gas, which combines nuclear's advantages on air pollution with lower cost. At present, it is as clear as it can be that there is no commercial case for building additional nuclear power stations in Britain, but hydrocarbon prices will rise at some point and when they do, rigorous costings of the nuclear option need to be available. That should be the goal of the nuclear review.

A fierce brand of consumer warfare

Procter & Gamble is slashing costs as the battle for market share intensifies, writes Martin Dickson

You need walk only a few hundred yards from Procter & Gamble's imposing twin-domed Cincinnati headquarters to appreciate the market forces which have prompted the consumer products giant to announce its biggest round of job cuts and factory closures.

In a Walgreens discount drug store in the centre of the Ohio city a 12-ounce bottle of P&G's bright pink Pepto-Bismol medicine, which treats stomach upsets, sells for $5.29. But on the shelf next to it, in remarkably similar packaging, is a bottle of Walgreens' own-label Soothe at the enticing price of $3.99. Lug your shopping basket a few shelves along and you will find a similar pattern repeated with P&G's Tide laundry detergent and its Pampers nappies.

Competition from retailers' own private-label goods and cut-price branded merchandise is causing much discomfort in the US to large household and personal products manufacturers – P&G, Colgate-Palmolive and Anglo-Dutch Unilever – at a time when they are locked among themselves in a fierce battle for market share, both in North America and around the world.

This intensifying competition prompted P&G to announce last week that it will cut 13,000 jobs, or 12 per cent of its worldwide labour force, over the next three to four years and close about 30 factories, about 20 per cent of the total. There will be a $1.5bn charge to earnings in the year which ended in June.

The aim is to drive down its costs by $500m by 1995-96 and give it the financial flexibility to combat its rivals with price cuts, such as an aggressive 15 per cent drop in US liquid laundry detergent prices it also announced last week.

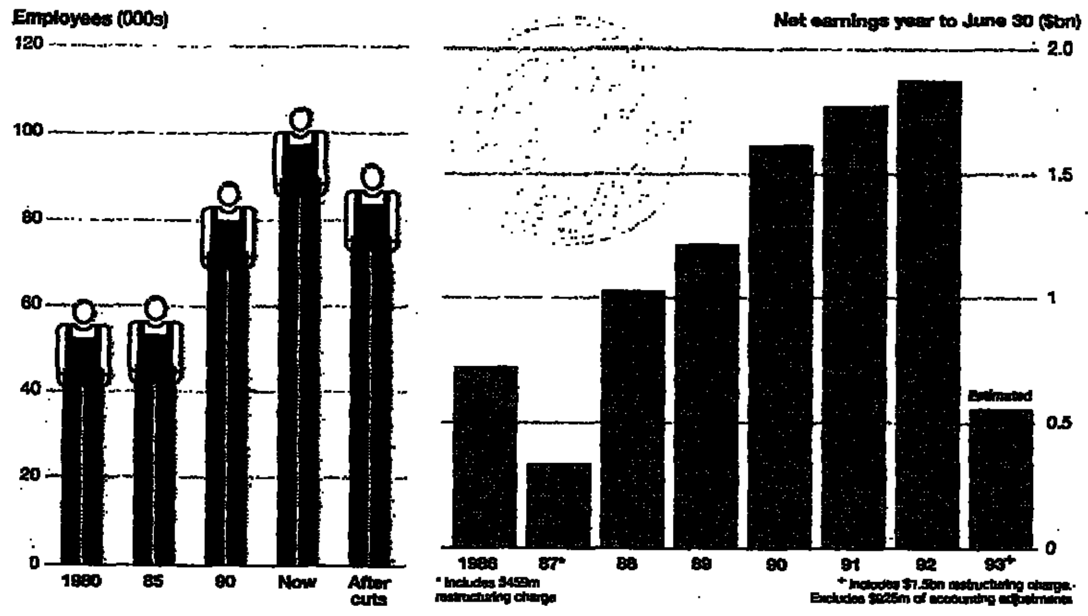
About half the job cuts will come from the closure of factories – some acquired during a takeover wave in the 1980s – which P&G says have been made redundant by changing markets and more efficient production methods.

The remainder will stem from a sweeping seven-month review of P&G's work processes and organisational structure, carried out with the help of management consultants Booz Allen & Hamilton. This is designed to sharply cut overhead costs as a percentage of net sales.

The company is cutting out layers of management, increasing the number of staff for which each executive is responsible and simplifying many practices, such as equipment buying and customer billing.

P&G is not alone in its efficiency drive. Arch-rival Unilever has been consolidating its manufacturing operations in recent years, while the much smaller Colgate-Palmolive took steps two years ago to close nearly one third of its factories and shed 8 per cent of its workforce.

Procter & Gamble: the cost of competition



However, the sheer scale of restructuring at P&G indicates that the battle for supermarket shelf space will intensify over the next few years, particularly in the US but also in western Europe.

"I think they are saying that pricing is going to be *the* key component of marketing," says Ms Bonita Austin, an analyst at Lehman Brothers, who forecasts a squeeze on smaller manufacturers and further consolidation of the industry.

But the restructuring raises fresh questions about consumers' brand loyalty and the size of the price premium big manufacturers such as P&G can command nowadays over cut-price rivals. Investors have been nervous about this since Philip Morris was forced to cut the price of America's best-selling Marlboro cigarette sharply earlier this year because of competition from unbranded rivals.

Still, at least P&G is pushing deeper into the fray from a position of strength. Over the next few weeks it will announce record 1992-93 profits (before the $1.5bn charge) of more than $2bn, up more than 10 per cent on last year, and its balance sheet is strong.

The cuts, therefore, are not those of a flailing US giant, such as IBM, which has lost touch with the market-place, but rather a pre-emptive strike to prevent an erosion of its hold on consumers.

The company, long-known for its toughness, product innovation and a somewhat secretive, in-bred culture, became even more aggressive in the 1980s when mature US markets for its core laundry and household products pushed it into a two-pronged strategy: rapid global expansion and a push into new sectors offering faster growth, such as beauty care and over-the-counter medicines.

This, coupled with buoyant global economies, produced extremely strong earnings growth in the late 1980s. But since 1990 the pace has slowed to an unspectacular annual average rise of just 9 per cent.

Its international business, which now accounts for more than 50 per cent of revenues, is still growing strongly, with volume sales up 10 per cent in 1992-93. But profit margins internationally are lower than in the US, which P&G has been relying on to fund the global push.

Yet the US market has been weak, with P&G's sales volume up just one per cent over the past year, due to recession. This has intensified competition and the temporary dislocation caused by a radical change in the group's marketing strategy to a system called "value pricing".

Under the old system, P&G ran trade promotions to boost sales, offering big but periodic discounts to retailers and wholesalers. This was inefficient, since it encouraged the buyers to stockpile discounted goods and forced P&G to keep extra manufacturing capacity to handle big swings in demand.

The new system, introduced on 70 per cent of P&G's US products over the past two years, cuts trade promotions and uses the savings to ensure lower prices throughout the year. The change has angered some retailers, who relied on the promotions for a good part of their profits, rather than passing them on to consumers; as a result P&G's market share initially suffered.

However, the company insists that both its volumes and market share have begun recovering over the past six to nine months and that its "value pricing" brands are performing significantly better than those on the old system.

P&G claims to have blunted the threat from private-label and cheap branded goods, which it reckons controlled 21 per cent of US markets in which it competes in the first half of this year, up just one per cent from a year ago.

Mr Edwin Artzt, P&G's chairman since 1990, argues that the recent concern over consumers' brand loyalty is exaggerated. Private-label goods, he says, have been around for a long time and will tend to gain share in a recession, when consumers are more price conscious, and lose it during a recovery.

However, no one really knows whether this is so in the 1990s, or whether there has been a fundamental shift of attitude among cost-conscious western consumers in favour of own-label.

Still, it is hard to argue with his second proposition: that the challenge for branded consumer products companies is to ensure that the premium they charge accurately reflects consumers' perceptions of the superior quality of their goods.

Marlboro's price, which was nearly double that of cheap generic brands before the recent cuts, had got out of line with the market. P&G, Mr Artzt says, does not intend to do the same.

Consumer perceptions depend not only on price but also advertising, which P&G says it plans to increase (on top of a 5 per cent worldwide rise last year), and on product innovation. Here the company's recent record has been mixed. Its strength is demonstrated by the way it has turned an obscure shampoo called Pantene into the top-selling brand in the world in just three years. However, it has recently lagged Kimberly-Clark in new product introductions in P&G's most important single revenue generating segment, disposable nappies.

The impact of all this on P&G's profits will depend on just how much of the $500m cost-savings it has to throw into the price war. Mr Artzt, while careful to avoid predictions, says that "we fully expect our growth rate to increase".

Some Wall Street analysts are inclined to accept that. However, there are sceptics such as Mr Gabriel Lowy of Oppenheimer & Co, who says P&G's earnings growth will remain at about 9 per cent, which he estimates is its annual average over the past 45 years. In other words, respectable, but hardly exciting.

But whoever is proved right, the only clear winner in this war is likely to be the consumer.

Reluctant banker run to ground

PERSONAL VIEW

Mr Jacques Attali, the object of recent excessive world media attention, has resigned from his prestigious post of president of the European Bank for Reconstruction and Development. As I was involved from the outset in January 1990 in the discussions on the establishment of the bank and the selection of its first president, I would now, with hindsight, like to say a few words.

Mr Attali has never been a banker in the true sense of the word. He has never worked in a bank. He was a typical French intellectual (that is, a socialist intellectual, visibly on the left of the political spectrum), a writer publishing a book every year and an adviser to President François Mitterrand of France. He was not a conventional person and he certainly never wanted to play a conventional role.

Mr Attali never intended to become a banker. He wanted to be a politician who could influence the world around him and developments in Europe in particular.

The wholesale fall of communism in 1989 and the ambitions of the French to play a new role in Europe gave him the right opportunity. The entire world was – at least in theory – prepared to do something for the post-communist countries.

To this end the EBRD was founded – without much enthusiasm from bankers, economists and financiers – as a purely political undertaking, pushed through by the European Community, which has a majority shareholding in the bank.

From the beginning there were arguments over the EBRD's role. Should it offer the "usual" loans, perhaps a little more cheaply for individual projects? Or should it co-operate with countries and governments and undertake regional planning studies (which I favoured) as a prelude to restructuring whole branches or sectors?

There was also dissent about its location: should it be in the centre of the world's financial markets in London; or should it be based in eastern Europe, where its work would be directed?

And there were questions, among other matters, about its president: should he be a politician like Mr Attali or a conventional banker? As usual, compromise won the day and a "half measure" – an institution with inbuilt tensions – was born.

At the inaugural meeting of the EBRD in London in April 1991, I disrupted the prevailing friendly atmosphere when I openly criticised the concept of the institution; and a photograph of me with Mr Attali was published on the front pages of newspapers around the world. Asked what I thought of the bank, I answered that it was "just another bank".

Attali's behaviour is a snippet of a wider problem: that of the west's attitude towards east Europe

This upset Mr Attali because he saw (and wanted to see) the EBRD as something totally unconventional, something that would – according to the French left – influence the transformation of east Europe: but from communism to what? And this is the crux of the whole problem.

We in the east aim to return to the normal democratic system of parliamentary pluralism and unrestricted market economics. The French left was aiming for a mixed system with wide-ranging state intervention, with pseudo-humanistic views (masking the pride of intellectuals and their insatiable ambitions to recreate the world according to their own ideals) in an attempt to create a "just" world.

From all of this, it is clear to me that Mr Attali's extravagant behaviour (the famous chef brought to London from Paris, private flights in the style of a head of state, the now well-known marble at the EBRD headquarters in the City of London) are only snippets of a much greater and more widespread problem: that of the attitude of the west towards the east after the velvet revolutions in 1989.

The EBRD, as the only dedicated institution set up at the time with the specific role of "helping" the east, has become the victim of an unclear and hazy "west-east" set-up. Out of this emerged all the craven preconceptions, partial or direct lobbying interests, false expectations, and lack of courage and of a clear vision of the problems involved which, every day, we experience around us.

Mr Attali was the most obvious, best known, most discernible protagonist of this historic epoch. He carried out his role with more than a small amount of charm and graciousness, neglecting trivia (he was above trivia).

With his departure, an era will end. In a certain way I liked him, and to this day wear the tie in his inimitable taste which he gave me. But only the choice of his successor will show whether we have really made any progress.

Vaclav Klaus

The author is prime minister of the Czech Republic

OBSERVER

Doctor abroad

■ One of life's joys that ended with Margaret Thatcher's premiership was that of asking Oxford dons whether they yet knew how the Iron Lady was going to punish them for publicly denying her an honorary doctorate. After all, given her character, they could not feel safe from retribution until she was deposed nearly six years later.

But any resentment she may harbour will probably be dispelled this week. For what her own alma mater denied her in early 1985 will be granted her in Moscow on Thursday by the Mendeleev University, one of the former Soviet Union's top research institutes.

She will combine the ceremony with a visit to someone else with cause to smile ruefully at St Matthew's reminder about prophets being not without honour save in their own country: ex-president Mikhail Gorbachev.

As Lady Thatcher did at Oxford, the Mendeleev specialises in chemistry. Moreover, of the mere half dozen foreigners it has granted honorary degrees, she is the only one who gave up chemistry for other things.

Why the award – did the Oxford snub have anything to do with it? "I've heard about that, but it doesn't touch on our decision," says Dean Pavel Sarkisov. "We have our own reasons.

"First, she was a chemist by education...second, she was a minister of science and education...and third and most important, she did so much to advance and develop democracy in this country."

Grave outlook

■ The bad news for investors in the business sector just reviewed by London securities house BZW is that not only the short-run but the medium-term prospects look "somewhat bleak."

The relevant figures show that 1993 "certainly commenced at a very disappointing rate," mourns BZW's report Where Now?, and the trend is unlikely to improve until well into the next century, although set to peak around 2030.

The good news for the rest of us in the meantime is that the figures in question are mortality statistics and the sector is the funeral directing business.

Floating asset

■ As the tall ships headed down the Tyne this weekend to race to Bergen, they passed a send-off party thrown by a company claiming to be the only one that plied its trade by sail from Newcastle which is still operating there.

Mind you, it very nearly wasn't, admitted Cookson Group's American chief executive Richard Oster, recalling 1990 when the industrially diversified caboodle almost sank. Nor does he ascribe its recovery primarily to the new managers who have taken the helm.

When they decided to go for a one-for-four rights issue earlier in the year, he confided, they were a bit anxious about the outcome of an already arranged shareholders' visit to the plant of their Vesuvius ceramics subsidiary at Newmilns near Glasgow.

They became more anxious still when not only did institutional investors and others representing over half of the stock ownership turn up, but Vesuvius's UK chief Roger Brook blithely informed the visitors that nobody from management would be showing them round the plant. Instead they were divided into small groups and given a tour by shopfloor workers.

The moral was plain, Oster said. The rights issue was 96.3 per cent taken up, and the rest of the shares readily sold. "The workers did a better job than the likes of me could have done," added Brook.

'Say something nice about his Jurassic Park slippers'

Class question

■ Is a privileged upbringing still the best route to the top in Britain?

No, according to a survey of 130 headhunters by the Executive Grapevine directory of recruitment consultants. Almost 80 per cent said that who you know had ceased to be more important than what you know when it comes to getting a prized job.

So how about their own backgrounds: what sort of schools did they go to, for instance?

The fee-charging variety in 60 per cent of cases. As for comprehensives, although the bulk were aged at most in their 40s, the tally was 5 per cent.

Smoke rings

■ From cramming the lines to clearing the air. Squeamishly capitalist Californian long distance telephone company Working Assets – which has regularly offered its subscribers free calls to Hillary Clinton and other US eminences to lobby for causes such as nationalised health-care – has hit on another do-gooding dodge.

This time its target is the permits the Environmental Protection Agency issues to electrical utility companies setting a specific limit, according to their size, on the amount of sulphur dioxide each may emit into the atmosphere.

Although intended to control the total amount of the emissions, the permits are marketable. A holder that manages to make do with less than its quota can sell the short-fall portion to another which wants to belch out more.

So Working Assets is proposing to put a percentage of the bills paid by its subscribers into a fund to buy up the unused permits, and take them out of circulation altogether.

"If you want to do something to reduce pollution, this is probably the easiest and most direct thing you can do," says owner-president Pete Barnes, "Every dollar keeps about ten pounds of sulphur dioxide out of the air."

Well, maybe – unless the agency resorts to the printing press and issues new permits to fill up the space the company has cleared.

Golden oldie

■ What's the name for the kind of dinosaur that was fabulously wealthy?

Georgeosaurus.

FINANCIAL TIMES
Monday July 19 1993

Stark change of style at the New York Fed

Richard Waters meets the man who must monitor US financial stability

MR William McDonough hardly seems a natural choice for the job of chief firefighter for the US financial system. A 59-year-old with a distinguished if unremarkable career in commercial banking, he is quiet, even hesitant.

In response to questions last week he was reserved and cautious, only relaxing when explaining the shortcomings of economic data or talking about his native Chicago. Yet as president of the Federal Reserve Bank of New York, a job he takes on today, Mr McDonough is the man most responsible for protecting the stability of the US financial system.

The change in style at the top of the New York Fed could hardly be starker. Mr McDonough succeeds the man who was responsible for bringing him to the bank only 18 months ago, Mr Gerald Corrigan. After eight years as the US's second most powerful central banker, and still only 52, Mr Corrigan has built a formidable reputation around the world. Forceful, energetic, eloquent, it was career central banker Mr Corrigan who led the efforts to patch up the financial system after the collapse of Drysdale Government Securities in 1982, and the 1987 share price crash.

After 22 years at First Chicago, one of the country's largest commercial banks, Mr McDonough is new to central banking and has none of Mr Corrigan's experience of quenching financial conflagrations. He at least inherits a banking system which is in better shape than at any time since the Third World debt crisis broke in 1982. The process of recuperation after the credit binge of the late 1980s and the recession of the early 1990s has left banks far stronger, he says. "The health of the banking system is much better than it was a number of years ago. Banks' balance sheets, and those of their corporate and personal customers, have been returned to a much greater degree of health."

When pressed on what could pose the next big threat to the stability of the US financial system, he had only one ready response: derivatives – the financial instruments such as futures and options which have become the dominant force in currency, interest rate and equity markets in the 1990s. The instruments are "an extremely important and useful tool for the management of financial risk," he says, but adds: "Like all financial instruments, they have their own risks, which must be managed and controlled. We have to be careful, because they are very complicated intellectually."

As president of the New York Fed, Mr McDonough's pronouncements will be second in importance only to those of Mr Alan Greenspan, chairman of the Federal Reserve Board and head of the central banking system. He will also act as vice-chairman on the 12-person Federal Open Market Committee, which guides monetary policy. Mr McDonough has already been responsible for 18 months for the day-to-day exercise of monetary policy, which is a job delegated to the New York Fed. During that time, he has won the confidence of economists on Wall Street.

Mr McDonough's generally sanguine view of US banks is matched by a cautiously optimistic view of the nation's economy. Inflation, he says, is likely to stabilise at around 3 per cent for the rest of this year, a level which he thinks conducive to steady economic growth. It is the faltering economies of Europe and Japan that pose the biggest threat, he says.

In another contrast to his predecessor, Mr McDonough does not expect to take a prominent role internationally, at least at first. On Friday, as his appointment emerged in an 11th-hour announcement, Mr McDonough predicted that he would spend less time abroad than Mr Corrigan – although he claims his fluency in Spanish and near-fluency in French, as well as periods spent abroad with First Chicago, mark him out as an internationalist at heart.

But, he adds, "it is a job where that which is necessary to be done is not predictable."

EC to debate Croatia sanctions

By Lionel Barber in Brussels

EUROPEAN Community foreign ministers will today consider trade sanctions against Croatia to deter further Croatian and Serb aggression in Bosnia.

The move comes after weekend talks in Geneva aimed at persuading Bosnia's Moslems to accept a UN-EC brokered plan to turn Bosnia into a confederation of three republics.

Lord Owen, the EC mediator, will report to EC ministers on the chances of reaching agreement. He is also expected to repeat fears of a humanitarian disaster in Bosnia this winter, unless a peace settlement is reached and more money raised for emergency aid.

President Alija Izetbegovic, the Bosnian Moslem leader, said yesterday he would not attend the Geneva talks unless rebel Serb forces halted their aggression against the Moslem population.

Pressure for sanctions against Croatia has grown within the Community amid evidence of collusion between Serbia and Croatia in carving up Bosnia and blocking UN relief convoys trying to reach besieged Moslems.

The UK is ready to raise the threat of sanctions against Croatia, but Germany, perhaps the Zagreb regime's closest EC ally, has reservations. Sanctions against Croatia would involve the withdrawal of trade privileges rather than the kind of wide-ranging UN embargo against Serbia which ministers insist must be tightened.

One idea is for Mr Willy Claes, foreign minister of Belgium, to visit Zagreb along with the EC "troika" of past, present and future EC presidencies to present a sanctions ultimatum to Croatia

Today's foreign ministers' meeting in Brussels will also discuss new EC rules to allow foreign EC nationals to vote in next year's European Parliament elections in the country where they are resident, providing they are registered in time.

Ministers will also discuss the final form of the six new rules for disbursement of Ecu141.5bn ($160bn) of structural funds to poorer EC regions over the next six years. This is expected to go ahead without difficulty, but member states are still arguing over their share of the funds.

Danes determined to see off the onslaught on the krone

By Hilary Barnes in Copenhagen

THE SIEGE of the Danish krone on foreign exchange markets has reopened the debate about whether the pressure on the currency can be put down to "speculators" or something more seriously wrong in the Danish economy.

Mrs Marianne Jelved, the economy minister, is adamant it has nothing to do with "economic fundamentals" – and that there is no case for a devaluation, let alone for leaving the European exchange rate mechanism.

As the krone enters its second week under attack, she is determined to see the doubters and speculators beaten off for the fourth time in 12 months.

However, the Organisation for Economic Co-operation and Development, in its half-yearly Economic Outlook published in June, warned that the Danish government's expansive fiscal policy could well lead markets to doubt "the country's continued commitment to a hard currency policy".

Mrs Jelved points to Denmark's low inflation rate, about 1 per cent over the past 12 months, and a DKr28bn ($4.26bn) surplus on the balance of payments of the current account, well over 3 per cent of gross domestic product.

But, as the OECD reports, the central government budget deficit this year and next will be about DKr55bn, 6 per cent of GDP, according to the government's own forecasts. A deficit of half that is sought under the Maastricht treaty on closer European union.

Then there is an unemployment rate of 12 per cent, which reflects the fact that over the past six years the annual average GDP growth rate has been just 1 per cent. In the first quarter of this year, GDP fell by 1.3 per cent compared with the first quarter last year.

Export competitiveness has been hit by the depreciation of the British pound, the Swedish krona and other currencies, leaving the trade-weighted value of the krone up about 8 per cent.

First quarter exports fell in value by 8.6 per cent from the same quarter last year and by about 6 per cent in volume.

Nonetheless, few leading export companies are actively urging a devaluation, although their profits are being badly squeezed. But it is "a very sensitive issue", as Mr Knud Sorensen, chief executive of the country's biggest bank, Den Danske Bank, said even before the latest attack on the krone.

The coalition government, headed by the Social Democratic leader Mr Poul Nyrup Rasmussen, is determined to get the economy moving again. It has embarked on an expansionist fiscal policy, in marked contrast to most other European governments, which are searching for spending cuts in the interests of lower interest rates.

The main thrust is in big cuts in income tax next year. Over five years, the revenue loss will be made up through other tax increases, but in 1994 and 1995 the reform will be underfinanced. In addition, there is a programme to increase infrastructure investment.

The government says the boost in demand a result of the changes will lead to an increase in GDP of 3.4 per cent in 1994, with private consumption soaring by 4.3 per cent. A catch is that if demand does not expand as forecast, the budget deficit could rise sharply.

Bonds, Page 18

Major steps up treaty pressure

Continued from Page 1

government if one or more of the opposition parties does not break ranks.

Meanwhile, Mr John Smith, the opposition leader, yesterday increased expectations that Labour would press for a vote of censure if the government lost Thursday's vote and then ignored the verdict of the House of Commons.

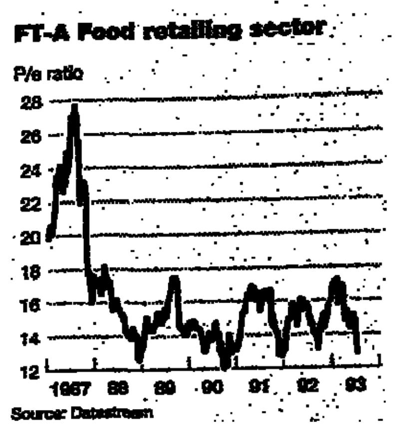
THE LEX COLUMN

Marketing games

Lights at the Treasury and S.G. Warburg doubtless flickered all weekend as the vendors of BT3 tried to separate the institutional sheep from the speculative goats in the professional part of the sale. The clustering of bids around 12p over the market price of BT shares suggests greater enthusiasm than there was in BT2 when fund managers kept all the interest saving associated with partly-paid shares. Still, that is more of a reflection of the outlook for BT and UK equities than the marketing effort. Overseas investors may simply view BT partly paid shares as a geared play on the UK market. The increase in allocations to UK retail holders thus looks odd since institutions were prepared to pay so much more. Given that there will be little immediate premium for retail stags to sell into, perhaps Warburg is making the job of stabilising the issue easier by keeping professional investors hungry.

One troubling aspect of the BT3 saga needs sorting out before the secondary sale of the power generators next year. The Treasury, determined to get maximum value for its stake, indulged in a little self-help by twisting the Stock Exchange's arm over reporting of large trades. There are concerns over market manipulation around share offers. But that applies equally well to the government and Warburg making up the rules to suit themselves as it does to institutions trying to depress the price.

A widely agreed framework for the stabilisation of issues both before and after flotations is needed. The failure to produce one promptly will leave the SIB's and the exchange's leaky ship still lower in the water.



Source: Datastream

Consumer products

Just as the market had almost persuaded itself that the Marlboro cigarette price cuts reflected unique pressures, along comes Procter & Gamble and attacks detergent prices. P&G's campaign may have the specific intention of forestalling the rise of private labels in the US. But combined with similar moves elsewhere from Heinz and BSN, it suggests consumer products manufacturers are now expending mighty efforts to drive down prices, thereby reversing the cosy industry trend of the 1980s. Low inflation, slow growth, intensifying competition and heightened consumer perceptions of value are squeezing brands' premium prices.

Price deflation has already made life painful in other industries, such as oil. Such pressures apply not only to manufacturers but also to distributors. Shareholders in the slipping sands of the UK food retailing sector may have further reason to question their footing. Decelerating inflation is reducing profits expectations. The fierceness of the big three grocers' fight against Costco's planning application for a warehouse club highlights their worries about lower-margin competitors.

The leading superstore operators suggest gross margins are now levelling out after many years of successive rises. Given that new stores generate higher-than-average gross margins, this implies those from existing stores are already sliding. Earnings and dividend growth from the sector may still average 8-9 per cent over the next few years. That may seem parsimonious when compared with the rates of growth in 1980s. The market, though, seems to be discounting a lot worse.

Emerging markets

When the head of Morgan Stanley Asset Management is pictured in a scary bear costume on the front of a US business magazine, it is clear some investors are getting worried. With the exception of Japan, most of the world's mature stock markets have been lacklustre performers this year, though some European bourses have been a little perkier recently.

Worries over a secular downtrend have spurred a renewed interest in emerging markets. In Latin America and the Pacific rim, in particular, economic growth rates remain strong. Moreover, these regions seem likely to increase their slice of global GDP significantly by the end of the decade.

Fund managers are beginning to juggle their portfolios to reflect the new reality. Those stock markets showing the best returns in dollar terms in the first half of 1993 were: Turkey, up 129 per cent; Brazil, up 55 per cent: and Jordan, up 39 per cent.

Still, it would not do to give up on the old world just yet. There is a touch of tulip bulb fever about the rise of some emerging markets. Their low liquidity accentuates their volatility and limits opportunities for investment on any scale. Nomura Investment Trust alone has some $360bn of funds under management, worth more than the capitalisation of the entire Paris bourse. Such funds have little option but to keep the vast bulk in secure markets in the developed world, where privatisation is likely to place increasing demands on them.

United Newspapers

There appears to have been something of a whispering campaign against Lord Stevens' stewardship of United Newspapers. Given his past involvement with the Invesco MIM fund management group, he is not one of the City's favourite figures. But United's trading record over the past few years has been respectable. There is little reason to let personal considerations cloud United's £190m rights issue which closes tomorrow.

The substantive worry concerns what United will do with the money. The company has not spelt out how it will use the proceeds, apart from reducing gearing. Shareholders are always suspicious of handing over their cash for unspecified purposes. United's £250m acquisition of the disappointing Extel shows its record is not spotless.

News International's launch of a tabloid price war last week has also unsettled United's shares. The early indications are that the Daily Star has been caught up in The Sun's wash but that the Daily Express has been little affected. It seems unlikely that News International hopes for anything as crude as knocking the Daily Star out of business. Although the Daily Star incurs losses it accounts for about 20 per cent of the through-put of United's printing plants and helps defray overhead costs.

Ironically, United's rights issue, which has been fully underwritten, may serve as a spoiling action of its own. Institutions flush with United paper may prove more resistant when Mirror Group Newspapers' administrators come knocking at the door.

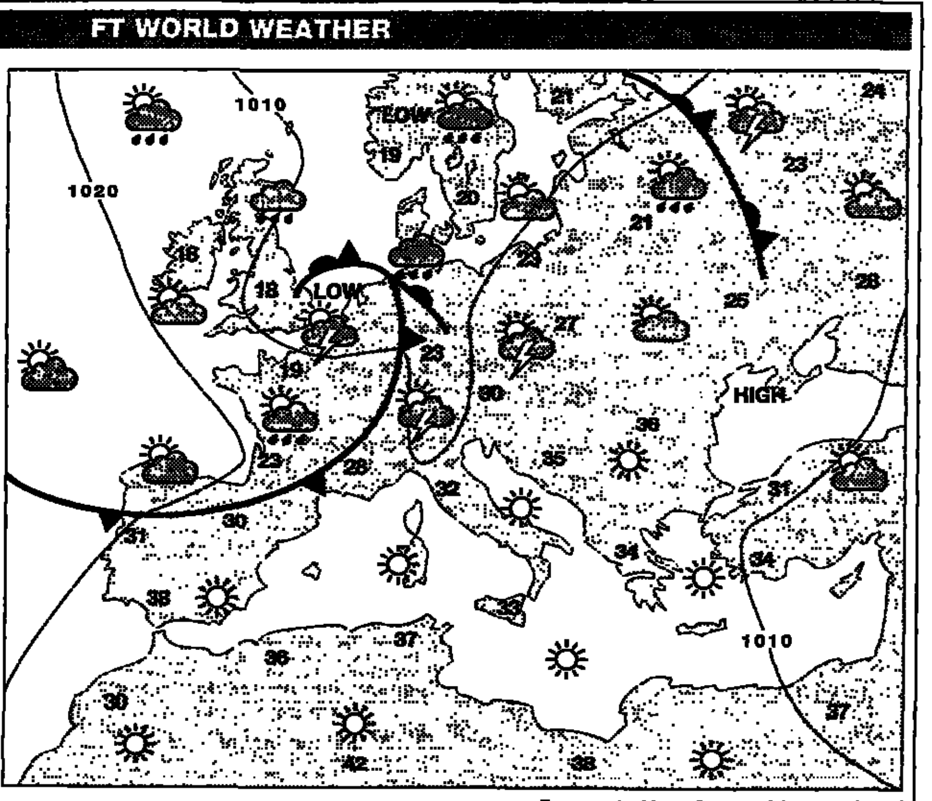
FT WORLD WEATHER

Europe today

A small, but active low pressure area will move from just north of the Low Countries across northern Germany. It will bring rain and thunder in most places in north-west regions Europe. Temperatures will stay below 20°C. In the Alps, thunder storms will develop. Temperatures will rise to 23°C, but in areas of heavy rain will drop to 17°C. Southern Europe remains warm, with most parts sunny and temperatures at tropical values. In southern Spain, local readings will rise to 40°C. Scandinavia will have sunny intervals, but Sweden may see some showers. In most places, temperatures will rise to between 19°C and 22°C. Western Russia will experience thundery showers, but temperatures will be moderate.

Five-day forecast

In north-west Europe, it will continue cool and unsetteled with occasional showers. The UK will have local showers, with sunny intervals especialluy in the south. Scandinavia will have more showers and rain during the next few days and daytime temperatures will drop to between 14°C and 18°C. Only Finland will have higher temperatures at first. In the south of Europe, it will continue mostly sunny and very warm.



Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

Maximum Celsius

Abu Dhabi	fair	38
Accra	cloudy	27
Algiers	sun	35
Amsterdam	rain	18
Athens	sun	35
Bangkok	thund	33
Barcelona	fair	28
Beijing	fair	30
Belfast	cloudy	17
Belgrade	sun	35
Berlin	shower	23
Bermuda	fair	30
Birmingham	shower	19
Bogota	drzzl	18
Bombay	shower	28
Bordeaux	shower	22
Brussels	thund	18
Budapest	fair	29
Buenos Aires	fair	13
Cairo	sun	37
Cape Town	fair	16
Caracas	fair	31
Chicago	shower	28
Cologne	rain	19
Copenhagen	cloudy	19
D' Salaam	cloudy	27
Dakar	fair	30
Dallas	fair	36
Darwin	fair	31
Delhi	rain	31
Dubai	fair	38
Dublin	cloudy	18
Dubrovnik	sun	34
Edinburgh	shower	18
Faro	sun	30
Frankfurt	thund	23
Geneva	shower	22
Glasgow	rain	20
Hamburg	rain	20
Helsinki	fair	21
Hong Kong	cloudy	32
Honolulu	fair	31
Isle of Man	rain	17
Istanbul	sun	31
Jersey	shower	17
Karachi	cloudy	35
Kuwait	sun	46
La Paz	fair	17
Las Palmas	fair	28
Lisbon	sun	28
London	rain	19
Los Angeles	fair	22
Luxembourg	rain	17
Lyon	shower	24
Madeira	sun	26
Madrid	sun	36
Majorca	fair	35
Malta	sun	33
Manchester	rain	18
Manila	shower	32
Melbourne	fair	15
Mexico City	shower	21
Miami	thund	33
Milan	fair	30
Montreal	rain	24
Moscow	shower	23
Munich	thund	24
Nairobi	cloudy	21
Naples	sun	33
Nassau	fair	32
New York	thund	29
Nice	fair	27
Nicosia	sun	37
Oslo	fair	22
Paris	thund	21
Perth	fair	18
Prague	shower	25
R' de Janeiro	fair	23
Rangoon	rain	31
Reykjavik	rain	13
Riyadh	sun	43
Rome	sun	30
S' Francisco	fair	22
Seoul	shower	25
Singapore	rain	31
Stockholm	shower	22
Strasbourg	rain	22
Sydney	shower	15
Tel Aviv	sun	34
Tokyo	rain	22
Toronto	shower	22
Tunis	sun	36
Vancouver	fair	22
Venice	shower	28
Vienna	thund	28
Warsaw	fair	25
Washington	thund	31
Wellington	rain	9
Winnipeg	fair	23
Zurich	shower	22

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FINANCIAL TIMES SURVEY

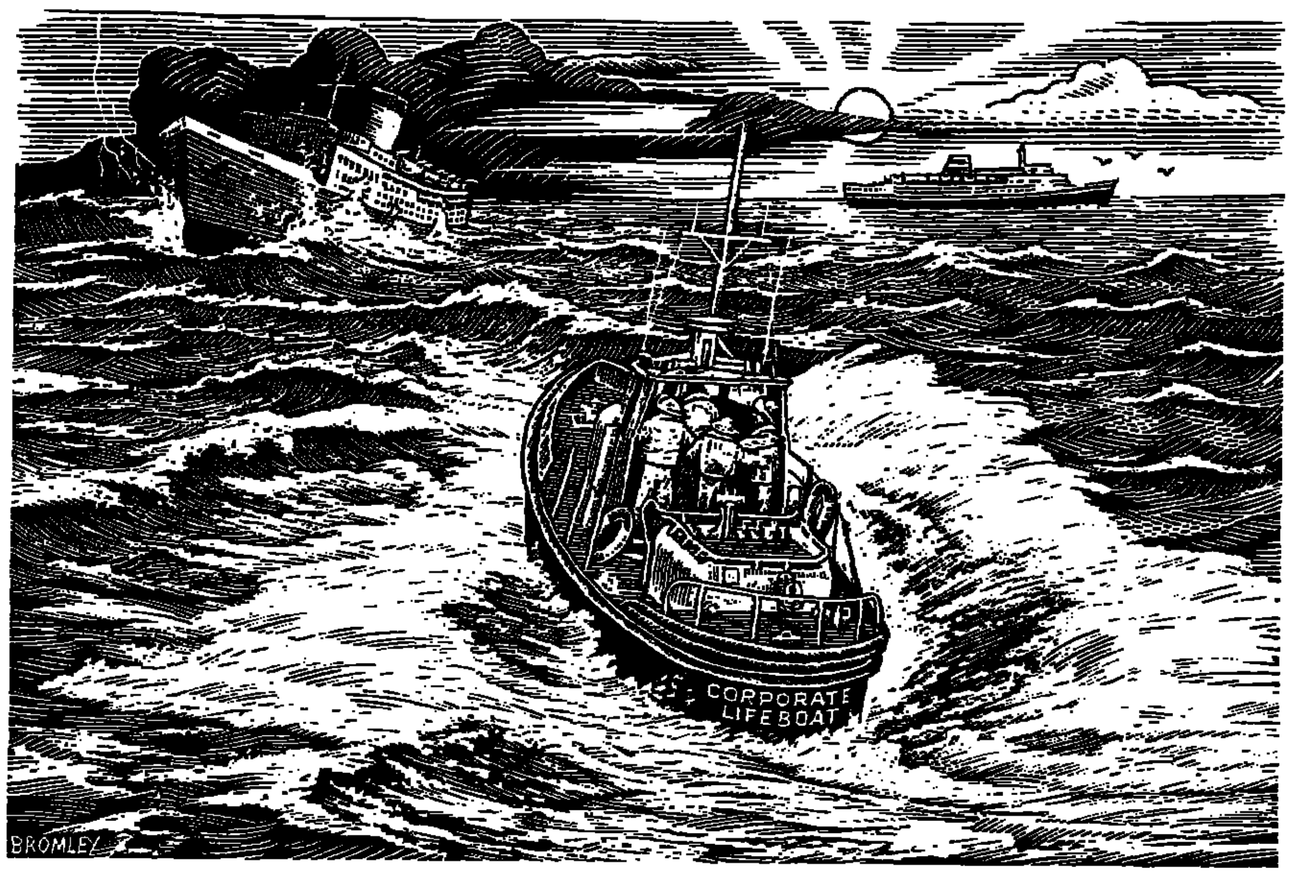
CORPORATE FINANCE

After 305 years, Lloyd's is ready for change
Page 3

Monday July 19 1993

Takeover activity is well below that of the late 1980s. Parts of the corporate finance market, such as advice on privatisations and cross-border deals, are buoyant, but small businesses are finding loans harder to obtain from cautious banks, writes **Robert Peston**

Small deals, fewer risks



THE CORPORATE finance business has gone back to basics. The days of hostile mega-takeover bids or of radical innovations in financing techniques seem long past.

Today's mergers tend to be motivated by industrial logic rather than driven by pure financial goals. Companies have become more conservative in a second sense – they take greater care to understand the risks associated with selling a complex financial instrument.

Nonetheless, the volume of debt and equity issues by public companies has reached record levels in the UK and US over the past few months.

These trends are a response to several factors:

■ Worldwide recession, which has reduced companies' appetite for expansion and thus for big takeover bids;

■ The huge level of indebtedness taken on by companies in the boom years of the 1980s, which now needs refinancing;

■ Accounting changes, which have reduced the scope for the sort of financial engineering which encouraged big takeovers and also the issue of complex securities;

■ The financial difficulties of companies which issued hybrid securities or dabbled in derivative markets without properly understanding the risks or the true costs.

Published statistics show a stark picture of low takeover activity. In the UK, for example, Schroders came top of Acquisition Monthly's league table of financial advisers in the first six months of this year, having given advice on seven takeovers with an aggregate value of £491m.

In the late 1980s, when individual bids were worth billions, a merchant bank would have just scraped into the top ten with that figure.

There was an almost equally flat performance in 1992, when there were only two takeovers or mergers valued at over £1bn: HSBC Holdings' takeover of Midland Bank and Reed International's merger with Elsevier of the Netherlands. S.G. Warburg topped the 1992 takeover league table, having acted in just six deals.

The pattern in the US is similar. The value of takeover deals in 1992 was $97.1bn, according to Merrill Lynch Business Brokerage and Valuation. This was the second lowest figure in nine years – though a third higher than in the previous year. However, the volume of deals in the US is picking up, even if the value of the individual deals is small.

There are also some signs that those merchant banks and securities firms which have invested most heavily in building up international networks of offices are belatedly deriving a competitive advantage. According to Securities Data, the top three advisers on majority acquisitions of companies anywhere in the world in 1992 have all made huge efforts to establish operations across the globe: the US house, Goldman Sachs, in the leading position having advised on deals worth $54bn, the First Boston/Credit Suisse network as number two with a tally of $33.6bn, and S.G. Warburg of the UK as number three, with deals worth $33.1bn.

However, one part of the corporate finance market which is booming is the giving of advice on privatisations. The new French government recently announced an extremely ambitious privatisation programme. The Italian government, in spite of the country's economic difficulties, is pressing ahead with the sale of state assets.

The UK government is continuing to realise public assets – the sale of the third tranche of British Telecommunications shares being the biggest such transaction this year.

Finally, there are substantial sales of state assets throughout eastern Europe and south America – while in China there are opportunities for joint ventures and licensing agreements.

Another relatively buoyant part of the corporate finance market is cross-border deals. In the past 18 months, highlights have included the Reed-Elsevier merger, British Telecommunications' tie-up with MCI in the US, and Hanson's acquisition of US-based Quantum.

Meanwhile, in the UK there has been a surge of equity issues, as public companies take advantage of buoyant stock market conditions to rebuild their balance sheets.

According to a survey by IFR Securities Data, the amount of new equity capital raised in the first half of this year was 6.6 per cent more than that raised in the whole of last year.

A total of £11.8bn has so far been raised this year, compared with £11bn in 1992. This year's first half total of 294 new issues is 72 per cent ahead of the figure at the same stage last year.

The preferred method of money raising continues to be the traditional rights issue of shares to existing shareholders, with £7.48bn having been raised in this way.

S.G. Warburg topped the league table of merchant bankers handling the new equity issues and Cazenove was the leading broker.

In the US, new stocks and bonds worth $530bn were sold in the first six months of 1993, well above the previous record of $445bn set in the first half of 1992.

The growth of debt offerings was caused in part by the lowest interest rates in three decades. These encouraged many companies to pay off expensive existing debt with new, cheaper debt.

There was also strong demand for equity from companies. A record $47bn in new shares was sold between January and the end of June. However, more than half of this was in the form of initial public offerings or company flotations.

The number of big companies careering towards bankruptcy has fallen, but this is not undiluted good news for corporate finance departments. It has led to a reduction in fee-earning opportunities from advising on financial reconstructions. Nonetheless, the negotiations on restructuring the debt of GPA, the world's biggest aircraft leasing company, have provided rich pickings for a pack of financial, legal and accounting advisers.

But one type of company in several countries – notably the US and the UK – has become concerned that traditional sources of finance have become more difficult to tap. Small and medium-size companies complain that banks are increasingly reluctant to lend to them or only to make loans at penal rates of interest.

Banks quibble with these complaints. They say that the recession has led to a shortage of demand for funds from "bankable" companies. If the demand for loans was there, the banks say, they would provide them.

What has happened is that banks have become more risk-averse in the past couple of years. Their biggest loan losses in recent years have come from lending to small companies, so they have become far more careful in analysing the quality of the potential borrower before making a commitment to lend.

A second factor is reducing the supply of new loans to this sector. Regulators are forcing banks to adhere to tougher standards of capital adequacy – rules governing the amount of capital a bank must have in proportion to the loans it makes – than a few years ago. The less that a bank lends, relative to a given stock of capital, the better its capital ratio.

So today when capital is in short supply, banks are lending at a slower rate than in the 1980s. However, small companies are particularly vulnerable to this slowdown in bank lending, because even bank regulators perceive them to be particularly risky customers.

When calculating the risk asset ratio, the commonly agreed international standard of capital adequacy, a home loan or purchase of government bonds carries a lower risk weighting than a corporate loan. That means if a bank makes a loan to a small company of a given size, its capital ratio is reduced by a greater amount than if it makes a home loan of equivalent size – so it will only make that corporate loan if it believes the profitability of doing so is greater than in making a home loan.

In other areas of corporate finance, leading investment banks say their pipeline of potential mergers and acquisitions deals is far greater than a year ago. What no one is predicting is a return to the corporate finance boom conditions of the 1980s.

IN THIS SURVEY

Confidence begins to seep back into the market

Editorial production: Roy Terry
Illustration: David Bromley

After the frenetic activity of the 1980s, FT writers discuss trends in the global mergers and acquisitions markets

□ EUROPE

Bottom-fishing for bargains

THE market for merger and acquisitions may be quiet in London, but according to some of the biggest corporate finance houses in the UK, European cross-border activity has been picking up over the past six months.

Mr Steve Mullins, managing editor of Mergers & Acquisitions International, believes the past six months have confirmed a trend of the past year: "The days of big takeover deals are now over. And it is questionable whether they will return. But cross-border joint ventures, alliances and mergers are back."

The spotlight over the past few years has shifted to the Continent. Goldman Sachs, which cornered the market in defending targeted companies, says that in 1992 around two-thirds of the European bids were based on the Continent, with a third in the UK. In 1987, the reverse was true. Some of the biggest banks based in London, such as J Henry Schroder Wagg and Morgan Grenfell, now devote a far bigger share of their resources and staff to work on Continental deals.

Lazard Houses, involved in the merger between Kingfisher in the UK and Darty of France earlier in the year, attributes the growth in cross-border activity to the fact that European companies are too small to consolidate in their own country.

Mr Ali Wambold, head of Lazard Brothers international work and a partner of Lazard Freres in New York, says: "Most European companies are now too small for much consolidation within their own backyard. They can either grow through organic growth or through diversification. Since the latter is out of fashion more companies are seeking to expand through cross-border merger or acquisitions."

Mr David Challen, head of corporate finance at Schroders, says European cross-border mergers and acquisitions account for half of all of the investment banks' public activities – a very different picture from five years ago.

"We decided to develop a serious capability in Europe which has coincided with far more of this activity. US businesses also increasingly believe that they need to be established within this growing market."

Mr Derek Higgs, managing director of SG Warburg, expects a continuing amount of special cross-border activity. "Most of the business will be sorting out things that need sorting."

A typical example is the decision of the South African Rupert family, through their Zurich-based vehicle Richemont, to reshuffle their assets into two defined vehicles. A new company, Vendome, was established to take care of the Carter and Dunhill operations while the tobacco interests of Alfred Dunhill were brought under the roof of a smaller Rothmans International.

Mr Guy Dawson, head of corporate finance at Morgan Grenfell, is confident that the rise of cross-border business should pick up as the year goes on.

"As the recession really bites, businesses are going to have to come to terms with the fact that they must rationalise. The conditions of activity are there even if they are not always being turned into transactions."

Mr David Jarvis, co-head of European Investment banking at Salomon Brothers, is encouraged by the increase in cross-border mergers and acquisitions.

Yet the pick-up in activity appears to be at odds with what is happening on the Continent, with many countries going deeper into recession.

However, some advisers believe the recession on the Continent offers opportunities as well as problems.

Mr Wambold says that two years ago most German companies were not for sale and even those that were, were "scooped out under our nose" by another German company. The recession, in Germany's case the first since the second world war, has driven companies in need of capital to contemplate mergers or acquisitions for the first time.

Those sentiments are echoed by Mr Challen. "Recession in continental Europe creates opportunities. Some companies may find there is no option but to do something."

He has not yet experienced a significant increase in activity from privately-owned German companies, but believes the recession might be the factor that forces some of them into contemplating the sale of their business.

However, as yet they are not showing any signs of going on a purchasing spree. Mr Wambold still sees the US as the best bet for such activity. "Many companies having beaten back the alligators over the past three years and are now looking to expand themselves."

While much of that expansion is still happening in the US, which is big enough to accommodate much of the consolidation that many European companies cannot complete in their own country, Mr Wambold believes US companies will increasingly see the opportunities that exist in Europe.

Nonetheless, a problem that still exists for prospective buyers is the expense of the possible targets. The stock markets and multiples remain high.

Mainly for this reason Mr Erik Linnes, director at Kleinwort Benson, warns against over-optimism in the cross-border market. While the Continent is in recession many buyers are going to sit on their feet. "It's still a brave time for any public company to put its head above the parapet and make an acquisition."

However, Mr Linnes says some buyers are "bottom fishing for bargains". He attributes the busier cross-border activity to the fact that a number of companies have decided to "swim against the tide". Those companies which are sellers also know that it is not the best time to dispose of their business and will be waiting for signs of an upturn in the economy.

Roland Rudd

Top advisers on completed European deals*

Adviser	Value ($m)	Rank	Mkt share (%)	No of deals
Lazard Houses	2,310.3	1	19.2	10
Credit Lyonnais	1,506.3	2	12.5	1
S.G. Warburg Group	1,069.1	3	8.9	7
Morgan Grenfell	715.2	4	5.9	10
UBS Phillips & Drew/UBS	629.1	5	5.2	1
Pierson, Heldring & Pierson	612.3	6	5.1	2
Swiss Bank	534.1	7	4.4	1
Lehman Bros	482.2	8	4.0	5
Kleinwort, Benson	455.8	9	3.8	5
Wertheim/Schroder Group	401.1	10	3.3	8
Societe de Banque Occidentale	390.0	11	3.2	1
Goldman, Sachs	362.0	12	3.0	6
BZW/Barclays	231.7	13	1.9	4
Wasserstein, Perella	207.9	14	1.7-	1
Citicorp	154.0	15	1.3	1
Industry totals	12,021.0		100.0	696

* Between January 1 and March 31, 1993 — Source: Securities Data Co

Top advisers on completed global deals*

Adviser	Value ($m)	Rank	Mkt share (%)	No of deals
Goldman, Sachs	11,127.4	1	22.9	25
Morgan Stanley	9,566.8	2	19.7	16
Lehman Bros	5,467.4	3	11.3	25
Merrill Lynch	4,339.2	4	8.9	17
Dillon, Read	4,237.0	5	8.7	4
First Boston/CSFB/CS	4,059.8	6	8.4	16
Lazard Houses	3,029.8	7	6.2	18
Salomon Brothers	1,627.4	8	3.4	20
Bankers Trust	1,579.5	9	3.3	5
Wertheim/Schroder Group	1,537.3	10	3.2	17
Credit Lyonnais	1,506.3	11	3.1	1
Wasserstein, Perella	1,446.6	12	3.0	8
Morgan Grenfell	1,371.5	13	2.8	15
S.G. Warburg Group	1,334.7	14	2.7	11
Donaldson, Lufkin & Jenrette	1,286.4	15	2.6	7
Industry totals	48,561.1		100.0	1,765

* Between January 1 and March 31, 1993 — Source: Securities Data Co

□ UNITED KINGDOM

Confidence begins to return

AFTER the exciting years of the late 1980s, the UK mergers and acquisitions market went into hibernation in the early 1990s. Last year it barely stirred in its deep sleep. But now there are signs that the market is waking up.

This is not to say that a return to the action of the last decade is expected, in the short or even long term. It is agreed that the frenetic activity seen then is unlikely to be repeated.

But one merchant banker reports the first half of 1993 has been as busy as ever before in his corporate finance department, though much of the work is new issues and privatisations as well as bids and deals activity.

Another says: "Confidence is beginning to come back, but slowly. In 1992, companies were keeping their heads down, containing costs and no-one wanted to know about making bids. Now they are beginning to look at expanding by acquisition again."

However, many consider there are few "cheap" companies available to a bidder. The high level of the stock market relative to companies' earnings means businesses are expensive to buy. Furthermore, the increasing amount of research done on companies means there are fewer undervalued stocks around.

Certainly the trend of hostile, break-up bids seems over. Hanson's £780m hostile bid for Ranks Hovis McDougall last November was topped by a recommended £935m offer from rival Tomkins in December. Even the Tomkins bid might have appeared an old-style unbundling attempt but seven months on Tomkins had not made a single significant disposal of RHM assets.

Other hostile bids have failed – such as T. Cowie's offer for Henlys Group last summer, and Airtours offer for Owners Abroad this year – as investors have given the target company's management a chance to prove themselves.

Gone too appears to be the simplistic attitude that a company on a p/e of 20 can pay 15 times earnings for another, and make money on the deal.

One merchant banker says that hostile bids and financially driven bids are "extremely difficult to win. Investors want a cash alternative and these are difficult to provide".

Traditionally, companies making share bids have offered a cash alternative through the underwriting system. However, such cash underpinnings are expensive in commissions.

The takeover timetable in the UK takes up to 60 days from the issue of the first offer document, and longer if a competing bid appears. Underwriters demand higher commissions for longer risk periods, especially in bids where if the stock market falls during the offer period, shareholders in the target company are more likely to opt for the cash alternative leaving more stock with the underwriters.

Airtours, for instance, said its failed bid for Owners Abroad cost £9m, of which £5m covered underwriting commissions and advisers' fees.

Agreed deals can be easier to finance, for example using vendor placings which can be arranged to coincide with the announcement of the bid, or issuing convertible Eurobonds.

Pilkington's £95m purchase of Heywood Williams glass distribution arm, for instance, was financed by the issue of a sterling 5-year bond with equity warrants. Sedgwick, the insurance broker, financed its acquisition of Medisure, a private health insurer, by a share placing and later issued a convertible bond. T & N, the motor component maker, financed its purchase of Goetze, a German piston ring manufacturer, with a share placing.

The high level of the stock market relative to companies' earnings means businesses are expensive to buy

If hostile bids are out of fashion, agreed or friendly deals are the vogue. And while conglomeration – buying an extra leg – is also demodé, industry restructuring through friendly deals is in.

Says one corporate financier: "There is a trend for less financially-driven activity and more industrially-driven activity." Such deals are more likely to be friendly, since, he argues, if there is a strong commercial logic then both sides will recognise it.

Take for instance the recent agreed deal between Greenalls and Devenish. The combination of the two pub operators will produce one of the biggest chains in the UK, with more than 2,000 pubs. Only two years ago Devenish successfully fought off a hostile bid from Boddington.

Other instances of commercially driven deals are BT's recently announced alliance with MCI of the US, which involves a joint venture between the two and BT taking a 20 per cent stake in MCI; and Richemont's decision to rearrange its luxury goods and tobacco brands into separate companies.

Another trend is towards cross-border deals. Many companies now feel constrained by their domestic markets and want to expand internationally. The agreed bid by Kingfisher, the retail group, for Darty, the French electrical chain, was Kingfisher's first significant move outside the UK.

One expert says that in the past five years, more than 60 per cent of merger and acquisition activity by UK companies has involved buying or selling a non-UK asset. To meet these needs many banks are now stressing their global strengths, and ability to advise clients on doing deals in different continents.

Many UK merchant banks have wide networks covering Europe, America and the Far East. Also, those US banks which have succeeded in the UK market have done so by stressing their international expertise. Goldman Sachs, for instance, developed its UK business initially in the early 1980s by advising UK companies on buying businesses in the US.

Within merchant banks one trend has been to develop expertise in particular industry sectors. If a corporate financier knows an industry intimately he can suggest deals to companies, or think laterally around a client's problem.

Fees for corporate finance work do not seem to have fallen much, in spite of competition for work. One merchant banker says: "There has been some evidence of fee cutting. If clients are in recession we must be as reasonable as we can be on fees. But no one is gaining market share on that basis." Many say that fees are heavily success-related, with fee structures designed only to cover costs if a transaction does not go ahead.

Maggie Urry

Top five acquisitions of private UK companies completed in 1992

Target (UK)	Adviser	Bidder	Adviser	Value (£m)
Virgin Music Group	Goldman Sachs	Thorn EMI (UK)	S.G. Warburg	560
Allied-Lyons (UK brewing interests)	S.G. Warburg	Carlsberg (UK brewing interests)	–	510
Del Monte Foods Intl	Charterhouse Bank	Royal Foods (UK)/Anglo American Corp (SA)	S.G. Warburg	360
Express Dairy/Eden Vale	S.G. Warburg	Northern Foods (UK)	N.M. Rothschild	359
Cope Allman Packaging	Credit Suisse First Boston	Bowater (UK)	Morgan Grenfell	232

Source: Acquisitions Monthly/AMDATA III

1992 UK public and private league table

Adviser	Value (£m)	No of deals
S.G. Warburg (2*)	9,973	29
Schroders (5)	5,131	37
Samuel Montagu (13)	4,176	16
Morgan Grenfell (4)	3,193	33
N.M. Rothschild (1)	2,463	25
Goldman Sachs (3)	1,817	14
Barclays de Zoete Wedd (6)	1,566	23
Baring Brothers (7)	962	21
Lazard (16)	907	20
Kleinwort Benson (8)	816	28
KPMG Peat Marwick (–)	711	55
Price Waterhouse (–)	500	58
Coopers & Lybrand (–)	493	86
Charterhouse (–)	414	22
Credit Suisse First Boston (19)	403	4
Hambros Bank (–)	330	19
Morgan Stanley (11)	263	3
Robert Fleming (–)	262	15
Lehman Brothers (12)	256	5
Touche Ross (10)	250	46

This table is based on the 1992 public league table plus UK private transactions completed between January and December 1992; * 1991 ranking — Source: Acquisitions Monthly

□ UNITED STATES

Some signs of improvement

A HEADY stock market and a heap of economic uncertainties have kept the lid on merger and acquisition activity in the US. There are some signs that business is stirring, but it is a patchy trend, made up of industrially-driven deals and much reshuffling of corporate assets.

The overall figures tell part of the story. According to Merril Lynch Business Brokerage and Valuation (figures are calculated on a more limited basis than the accompanying table by Securities Data), 2,578 M & A transactions were announced in 1992 and the total value of these proposed deals reached $97.1bn. That was a significant improvement on the 1991 tally: the number of deals was up by 39 per cent, while the aggregate value of the transactions increased by 35 per cent.

But, while the deal volume figure hit its highest level for six years, the value of the proposed transactions was also the second lowest in nine years. This can be explained very simply. Last year saw an appreciable rise in smaller deals, but very little evidence that either the blockbuster mega-bid or the hostile takeover – the combination which provided such rich fees for investment banks in the 1980s – is returning. There were just 18 deals worth $1bn or more announced last year.

Since the start of 1993, the trend has been more ambiguous. For fee-hungry bankers, the year did not start well. Again on Merrill Lynch's data, the total value of proposed mergers and acquisitions in the first three months fell by more than one-fifth from the equivalent 1992 figure, to $18.1bn. The volume of transactions, however, was down by a less painful 2 per cent at 569.

But this pattern changed significantly in the second quarter, when a handful of mega deals – worth $1bn or more – were unleashed. As a result, Securities Data, the New Jersey-based financial information group, estimates that the value of domestic mergers showed a 25.6 per cent increase between the first halves of 1992 and 1993. The number and value of deals announced in May "were the highest for a single month since July 1990", it reports.

Included in this wave of transactions was a $4.3bn tie-up between British Telecom and MCI; a $3bn-plus merger of Galen Health Care and Columbia Hospital Corporation; the $2.5bn joint venture arrangement between Time Warner and US West; the $2.4bn merger of AMAX with Cypress Minerals; and a $2bn merger between Price Company and Costco, two warehouse club retailers.

Is this surge in "big deals" a flash in the pan? Bankers, who have every reason to talk their book, say no. They point to a handful of broad economic trends, plus a number of specific sectoral developments which – by their reckoning – should ensure that the transactions continue to flow.

The first is the impact of very low inflation – or even falling prices – in many industries, and stagnant demand. This has forced companies to focus on cost-cutting and streamlining their operations.

So a spate of divestments has been triggered. Moreover, because of the heady stock market levels, "demergers" or public offerings have become an increasing popular option, rather than more conventional trade sales. According to Securities Data, almost 30 spin-offs – either in the form of a distribution of stock to existing shareholders in the parent company or via a flotation of shares in the subsidiary – were announced in the first 24 weeks of the year.

The "demerger" movement has had the odd setback, however. A plan by Marriott Corporation, to spin off its hotel management business, leaving the ongoing company to hold the property assets and the bulk of the group's debts, created a storm of protest among bondholders. The proposal was fine-tuned and some peace bought, although litigation continues.

But, even if the proposal is eventually implemented, some advisers suggest that the Marriott fiasco may act as a warning to other companies. "I think everyone will now consider the demerger option very carefully," says one banker. Meanwhile, a "targeted stock" scheme proposed by RJR Nabisco – which would have involved listing shares pegged to the food division, but creating no legal separation from the group's tobacco interests – was finally aborted, amid criticism that the plan was too clever by half. Financial engineering, it seems, is still firmly out of fashion.

It is also no coincidence that the sectors where M & A activity has been most pronounced are those where technological, political or regulatory changes are under way. Perhaps the best example is in the communications field, where what was once a battleground between cable and telephone companies is evolving into a more complex network of joint ventures and alliances. Medical services are another area where the deal flow is expected to continue, if not increase. "Whatever comes out of the Clinton healthcare reform package, you're going to see activity in the hospitals and clinical services," says Ali Wambold, a general partner of Lazard Freres in New York.

Meanwhile, the cross-border deal flows are spasmodic. With recession hitting Europe somewhat later than the US, there has been a marked lack of interest on the part of Continental European acquirers. Stock market levels in the US are also at historically high levels, and thus a deterrent to buyers. That said, the recent emphasis on cost-cutting and efficiency in the US, plus the nation's improving economic prospects, have made the US corporate sector inherently more attractive. There has been interest from UK purchasers, for example, with the likes of RTZ, Hanson, Bowater and British Telecom all tying up deals in recent months.

Meanwhile, many US companies find themselves confronting a fairly mature domestic market and some burgeoning opportunities overseas. This has encouraged an increasing "internationalism" but the sums involved in the mélange of joint ventures, co-operative deals and outright acquisitions are often modest.

Nikki Tait

Global majority acquisitions*

Adviser	Value ($m)	Mkt share	No of deals
Goldman Sachs	54,381.1	16.1	175
First Boston/CSFB/CS	33,633.9	10.0	184
S.G. Warburg Group	33,099.0	9.8	68
Morgan Stanley	23,126.1	6.9	102
Lehman Brothers	19,672.2	5.8	97
Lazard Houses	19,371.2	5.7	77
Merrill Lynch	15,342.1	4.6	89
Samuel Montagu/J. Capel/HSBC	14,217.9	4.2	50
J.P. Morgan	13,303.5	3.9	82
Baring Brothers	13,138.6	3.9	38
Salomon Brothers	11,760.5	3.5	70
Schroders	11,451.0	3.4	98
Morgan Grenfell	10,042.0	3.0	93
James D. Wolfensohn	10,008.5	3.0	15
Donaldson, Lufkin & Jenrette	7,971.9	2.4	52
Bear Stearns	7,912.5	2.3	31
The Rothschild Group	7,856.7	2.3	99
Dillon, Read	6,733.4	2.0	23
Bankers Trust	6,270.0	1.9	44
Kidder Peabody	5,970.6	1.8	40
Swiss Bank	4,679.8	1.4	2
Banque Indosuez	4,648.0	1.4	4
Kleinwort, Benson	4,374.9	1.3	67
BZW/Barclays	4,326.6	1.3	32
Banque Paribas	3,412.6	1.0	22
Industry totals	337,105.7	100	14,144

* Includes all public and private deals announced in 1992 — Source: IFR Securities Data

US majority acquisitions*

Adviser	Value ($m)	Mkt share	No of deals
Goldman Sachs	36,008.6	25.0	117
Morgan Stanley	19,207.7	13.3	74
Lehman Brothers	16,986.4	11.8	75
First Boston/CSFB/CS	15,055.9	10.5	100
Merrill Lynch	14,192.6	9.9	74
Salomon Brothers	12,254.5	8.5	44
Bear Stearns	7,573.3	5.3	23
Donaldson, Lufkin & Jenrette	7,356.9	5.1	50
Dillon, Read	6,173.5	4.3	19
Kidder Peabody	5,910.0	4.1	36
Lazard Houses	5,711.5	4.0	34
J.P. Morgan	5,322.4	3.7	36
Bankers Trust	4,350.2	3.0	23
James D. Wolfensohn	4,248.8	2.9	8
Montgomery Securities	3,080.1	2.1	15
Alex Brown	3,017.3	2.1	26
Barr Beaty Devlin	2,381.0	1.7	2
Wasserstein, Perella	1,925.2	1.3	14
Keefe, Bruyette & Woods	1,906.4	1.3	10
Smith Barney, Harris Upham	1,786.5	1.2	14
Houlihan Lokey Howard & Zukin	1,758.6	1.2	20
Paine Webber	1,718.3	1.2	27
The Rothschild Group	1,712.0	1.2	12
The Securs Group	1,214.0	0.8	1
Robertson Stephens	1,160.4	0.8	9
Industry totals	144,058.8	100	5,277

* Includes all public and private deals announced in 1992 — Source: IFR Securities Data

Tracy Corrigan looks at new instruments available to corporate treasurers

Exotic options fit the bill

THE UPHEAVAL in Europe's foreign exchange market last autumn has had a number of side effects, not least of which has been a reappraisal of currency risk management by many companies.

Currency risk management is no longer relevant only to exporters and importers, because many companies now have overseas operations.

However, volatility has also had the effect of raising the cost of instruments, such as currency options, used to hedge exposure to the foreign exchange markets.

To win the hearts and minds of corporate treasurers, who tend to baulk at what they see as overpriced insurance policies, investment banks have become more adept at structuring more complex options – known as exotic options – which meet the primary aims of companies at a lower cost. "The second generation is important," said Mr Albert Maasland, manager of foreign exchange derivatives marketing at Chase Manhattan Bank in London. "Derivatives on derivatives tend to reduce cost, and if you understand a client's risk profile, you can structure products to suit their needs."

But companies are also aware of the risks inherent in the use of these complex financial instruments.

The loss of £150m in foreign exchange dealings two years ago by the treasury department of Allied-Lyons, the UK food and drinks group, illustrated the potential dangers, if corporate treasury operations are not carefully controlled. The problem stemmed from the practice of writing currency options, which can lead to unlimited losses.

There are two types of exposure which companies may try to hedge, transaction exposure and translation exposure. In the last year, companies have become more active in hedging transaction exposure – the currency exposure stemming from a particular sale or purchase of goods of services. While in the past the tendency has been to hedge next year's budget, or to hedge known sales or purchases a year ahead, corporate treasurers are now tending to look a year or two further ahead. "More companies are saying to themselves that if they have a currency position which is strategic, they should start to take the volatility out of that risk," said Mr Paul Ward, a director of Salomon Brothers in London.

For UK companies which are effectively long dollars, it may seem attractive to lock in an exchange rate of $1.50 to the pound over several years, for example.

One potential problem with hedging transaction exposure is that there is some concern that the tax situation may become less favourable in the UK, and the ability to net positions between different parts of the company may be reduced in the next Budget.

Attitudes to translation exposure are more mixed. Translation exposure arises in companies' balance sheets when, for example, a UK-based company is operating in the US.

If it has no debt and is financed by sterling equity, the value of its assets against its liabilities will fluctuate. Some companies effectively hedge against such exposure by borrowing in the relevant foreign currency to match their assets.

Others take the view that since such exposure is only in the balance sheet, it is not worth worrying about mere accounting numbers. However, in a highly geared company, such volatility may affect gearing and have an impact on banking covenants.

There is widespread agreement among investment bankers that UK companies lag their European counterparts in their use of derivatives, particularly in the recent vogue for exotic options.

French companies in particular are known for being highly sophisticated in their use of options – and also have more autonomous treasury departments.

Among recent popular products which can help reduce costs are basket options, which allow a company to hedge exposure to a range of currencies, and average rate options, which allow companies to have a smooth rate throughout the year. Average rate options are "a great product for companies with a regular cash flow, because they are quite simple to explain and simple to use for (hedging) transaction exposure," said Ms Sara Sullivan at Chase Manhattan.

Knock-out options are cheaper because if the underlying spot rate trades above or below a certain level, the option expires. They are generally about 35 per cent cheaper than other options.

Meanwhile, some companies are eschewing options in favour of dynamic hedging. In dynamic hedging, instead of buying options, exposure is hedged by buying and selling forward contracts in the market to replicate options. This method creates substantial savings for companies, according to Mike Shilling, assistant director at Record Treasury Management.

Meanwhile, some banks have also been touting Safes – synthetic agreements for forward foreign exchange – which are essentially forward contracts that do not require an exchange of principal.

As a result, banks need to devote less capital and are less exposed to the risk that their counterparty will default. There are two types of Safe: the exchange rate agreement, or ERA, which protects the purchaser against a change in the forward foreign exchange spread and the forward exchange agreement (FXA), which gives protection against a change in the spot rate as well as the forward spread.

Andrew Jack looks at the expanding role of accountancy firms

Rise of a new, bolder breed

Gerry Acher: 'we are not a threat to the merchant banks'

Stephen Barrett: young enough to adapt to the partnership culture

GERRY ACHER and Stephen Barrett seem to have little in common as they sit next to each other on the far side of a desk in an office at KPMG Peat Marwick.

Mr Acher is quietly-spoken, soberly dressed with a plain shirt and a conservative tie. Mr Barrett has a mellifluous voice and youthful looks to match his wide, pin-striped suit, loud, green braces and pink shirt.

Yet both men work in the same firm – the former a lifetime accountant with what he calls "The House of Peat" and now one of its senior partners and head of KPMG Corporate Finance; the latter a newly-recruited partner into the division from Lloyds Merchant Bank.

They epitomise the increasingly blurred description of what constitutes an accountancy firm. They serve particularly to illustrate the new, aggressive breed in the larger firms encroaching into the terrain of the banks in both strategy and culture.

Take, for corroboration's sake, Howard Hyman and Anthony Browne, sitting in an office less than a mile downstream at Price Waterhouse. Both trained as auditors, but the former in particular has taken on much of the charismatic manner more usually associated with bankers than accountants.

Mr Hyman, head of corporate finance for Europe for the firm, is keen to show off his trophies. As he talks, he bounces up from his chair and reaches for an armful of paperweight "tombstones" encased in acrylic plastic, mini reproductions of the documents on deals in which Price Waterhouse has been involved.

It is an appropriate gesture in a market dominated by show and aggressive marketing. Warming to his theme, Mr Hyman finishes filling the table in front of him with the tombstones and reaches for a trade magazine survey showing PW top among accountants for cross-border mergers and acquisition work in Europe.

"We are genuinely a four-business firm," says Mr Hyman, arguing that corporate finance – including insolvency – is a strong contributor alongside the traditional areas of accounting and audit, tax and consulting. He says that in the year to June, his division contributed one quarter of the UK's profits, and more than 15 per cent of those across Europe.

KPMG, needless to say, points to a different set of statistics than PW's, which shows to the contrary that it has dominance of the key elements in the corporate finance sector. Of course, the same trick reverberates around the other Big Six firms – and many of their smaller counterparts.

Each highlights its pre-eminence by some measure, while the partners concerned hint darkly and discreetly about the viability of their competitors. Is a pan-European structure a needless additional cost? Does investigations work logically sit within corporate finance?

Mr Hyman goes so far as to say that he does not want to reveal too much about his own strategy, since he is sure that – as so often in the past – it will quickly be taken up by his rivals.

There is no doubt that accountants have made significant inroads into corporate finance in the past few years. They have gone well beyond the traditional role of due diligence work or accounting investigation, into the realms of brokering marriages between companies and finding financial support.

That is a trend which has not been altogether favourably received by the merchant banks. They may have been nonchalant during the late 1980s, when there was enough business for everyone; but in the recession of the early 1990s, at a time of far more talk than action, they are becoming more resentful.

But the accountants believe there is room for both sectors. Mr Acher says his target markets are privatisations, deals worth below £20m, and the documentary aspects of larger takeovers. "I'm pretty relaxed about it and the merchant banks are pretty relaxed about it," he says. "We are not a threat to them."

Mr Hyman adds that accountants have proved their worth to banks, especially when it comes to providing large numbers of staff who can work on a single deal – quantities which could not be easily provided by a bank.

New Stock Exchange regulations allow the accountants to act as sponsors on new issues for the first time this year – although Mr Acher believes this is probably a less profitable and enticing area for KPMG.

In more indirect ways, the merchant banks have struck back. Not all those who have left to join accountancy firms have stayed. Mr Barrett believes he will, because he has entered at the right level – a junior partner, young enough to adapt to the partnership culture.

Prize ring: Howard Hyman (left), with Anthony Browne, is keen to show off his collection of paperweight "tombstones"

But there is also an element of concern in the expanding accountants' role within the profession. Mr Andy Pollock of Rees Pollock, a London firm created by former Ernst & Young people, says: "Accountants should be accountants. They should keep to investigations work and leave much of the other work to the merchant banks and corporate finance boutiques."

He argues there is a fundamental conflict of interest – which is particularly strong in the Big Six firms – acting for both or, in the extreme, several different sides in corporate finance work; an auditor finding a financier, advising management, and conducting due diligence for both sides – and partly paid through success fees.

"You have to ask why so many deals have fallen through so quickly," he says. "Nobody is taking a good, independent look at the figures." He cites a recent case in which a bank has commissioned his firm, which found problems overlooked by the auditor. The problems hardly something that auditor would have been happy mentioning to the bank if it had been commissioned to do the work instead.

But this argument leaves Mr Acher unmoved. "Very often there is a degree of comfort in using the same firm," he says. "But if any party believes there is a conflict, I would be happy to drop away. Goodwill is so important and we are of such a size that it doesn't cause us a conflict to do so."

CORPORATE FINANCE 4

Lloyd's prepares to take on a new character, writes **Richard Lapper**

Capital idea ready to launch

LLOYD'S OF LONDON will finalise its plans to attract corporate investment later this month, signalling an important shift in the character of the 305-year-old insurance market. Lloyd's leaders believe that an influx of fresh capital from institutional investors, insurance companies and individuals is essential if the market's recent losses are not to be followed by shrinkage and possible break-up. But in spite of some encouraging recent signs, the success of the efforts to attract new money is far from certain.

Lloyd's initially agreed to invite corporate investors to join the market in January last year, when the council, or governing body, accepted the recommendations of a market task force, headed by the present chairman, David Rowland. The discovery in the spring of 1992 that the entry of new "incorporated Names" would not require any amendment to the 1982 Lloyd's Act, which sets out the market's self-governing status, led the council to step up its preliminary work. And in April this year Lloyd's announced the basic rules for corporate participation as part of its new business plan.

Underpinning all these developments has been a realisation that Lloyd's cannot now hope to sustain – let alone expand – its existing capital base by relying on the individual members or Names, who have traditionally supported underwriting with their personal wealth.

Lloyd's losses in the past five years amount to more than £6.5bn and have left several thousand Names facing the prospect of financial ruin. Since 1989 more than 13,000 Names have been forced either to resign or cease underwriting, reducing overall capacity from £11.1bn in 1990 to £8.7bn in 1993. More than 2,000 Names have applied to the market's hardship relief scheme, under which Lloyd's reschedules their debts and allows Names a modest income and home. Worse still the average age of the 19,770 Names who continue to trade at the market is more than 55.

"Anno Domini and our losses mean that we are an eroding asset," says Mr David James, a Name and leading businessman who joined the council last year. "There is not going to be a new flood of Names. We can only come through this morass if we attract new capital. The reality is we must expect further erosion. If we cannot replace that we are in some trouble." Further impetus for the move to corporate capital is coming from Lloyd's agencies – which handle the affairs of individual Names and manage syndicates. With more than 17,000 Names either contemplating or taking legal action, agents are anxious to attract more stable investors.

In its business plan Lloyd's announced that corporate investors would be asked to deposit 1.5 per cent of their stamp capacity (the amount of premium they are allowed to accept according to Lloyd's rules) in 1994 and pay a subsequent annual fee equal to 0.5 per cent of stamp. "Incorporated Names" must also deposit 50 per cent of their stamp with Lloyd's to underwrite (compared to between 20 per cent and 30 per cent for individual Names). Lloyd's aims to achieve average underwriting returns of 10 per cent per year would therefore guarantee corporate investors a pre-tax return of 20 per cent from underwriting. Coupled with investment income of some 7 per cent incorporated Names could hope to achieve pre-tax returns of up to 27 per cent, the business plan says.

Already the prospect of these returns has attracted a number of investment bankers to work on corporate capital projects. Late last year two banks – JP Morgan of the US and SG Warburg, of the UK – agreed to advise Lloyd's on its plans. Other financial institutions such as James Capel, BZW Securities, Salomon Brothers and Phoenix Securities, a niche securities house active in the international insurance market, are exploring a series of initiatives. Marsh McLennan, Johnson & Higgins, Sedgwick Group and other insurance brokers, which have a detailed knowledge of the quality of the syndicates active at Lloyd's, are working with the banks on developing these schemes. Among the most developed are:

■ Morgan and Marsh teamed up in developing a $70m Bermuda-based company which will provide quota share reinsurance on an exclusive basis to syndicates managed by the Merrett Group at Lloyd's, one of the biggest of the Lloyd's managing agencies. Mr Dennis Purkiss, chief executive of Merrett, says the new company could eventually become an "incorporated Name" at Lloyd's in its own right.

■ CLM, a subsidiary of Sedgwick, the insurance broker, has teamed up with BZW to launch a £200-300m investment company, which would be listed on the stock exchange and participate in Lloyd's through up to six subsidiaries, each of which would become incorporated Names. While the company would be based in London and eventually listed on the stock market, the subsidiaries could be licensed as insurers in Bermuda, where both the tax and regulatory environment is gentler. BZW is marketing the company among individual and corporate investors and hopes to launch it by the autumn.

■ Phoenix Securities is working with Anton agency at Lloyd's in the development of various vehicles, while Salomon Brothers has linked up with Johnson & Higgins. Marsh McLennan and J P Morgan have launched a $1bn investment fund, a portion of which could be directed to the Lloyd's market.

Two main questions cast a shadow over all these schemes.

Lloyd's has still to convince investors that a plan to isolate billions of dollars of potential liabilities from US pollution and asbestosis will be effective.

The proposal to "ring fence" these liabilities by transferring all policies underwritten by Lloyd's syndicates in 1985 and all earlier years to a new reinsurance company, NewCo, formed an important part of the business plan.

Lloyd's admits though that the scheme is highly ambitious and is dependent on months of painstaking efforts by market officials. More importantly, Lloyd's is coming under pressure from groups of loss-making Names to modify the terms on which corporate capital can join Lloyd's.

The rebels argue that corporate investors must pay a higher joining fee or contribute part of their future profits to a fund, which would be used to help pay the losses of Names badly hit by recent losses.

The issue figured prominently at an extraordinary general meeting in July and will be an important part of a confidence vote on which Names will vote by early August. Mr David Rowland, chairman, is keeping his fingers crossed that Names will vote against the rebel motions. Defeat would rule out the introduction of new corporate investors at least in the medium term and could seriously jeopardise the market's existence.

Lloyd's is taking a bold step forward to attract fresh capital

John Gapper considers the risks posed by small businesses

Banks re-think lending policy

OF ALL sectors of corporate finance, lending to small and medium-sized businesses faces the greatest uncertainties. British banks have been forced into a fundamental re-think both of the terms on which they do such business, and even whether they should be doing it at all.

While banks ponder their future in the market, smaller businesses are themselves considering ways to avoid more exposure to loans after poor experiences. Both sides are licking their wounds after a wave of company failures that emerged as big provisions on bank balance sheets.

This sense of uncertainty is relatively new for small corporate finance. Lending to the sector has appeared the last, best hope of many British banks after the process of disintermediation of large corporate business which flourished in the 1980s cut lending margins to wafer-thin levels.

In contrast to larger corporate lending margins of below 50 basis points – or half a percentage point – small firms have been forced to obtain money at up to 6.5 percentage points above base. This form of traditional bank business logically offers the best hope of higher returns on capital.

Apart from the size of margin, small corporate lending also tends automatically to attract other fee-earning business for which banks have to press large companies. Fees for services such as clearing cheques not only raise overall profits, but help to support the cost of branch networks.

However, the assumptions underlying much small corporate business have been put in question by the experience of the last UK economic cycle. Banks failed to assess the risks of lending in the over-heated economic surge of the late 1980s, and were caught in the backlash of corporate failure.

Despite the attention attracted by the well-known cases of corporate failure, many of the banks' bad debt problems have been caused by small firms. Nearly half National Westminster's bad debt provisions of £1.3bn in branch banking last year were on loans of less than £50,000 – both corporate and personal.

Banks have drawn three lessons from these problems. The first is that they have assessed the level of risk wrongly. The second is that much of what they took to be retrievable loan capital was in effect equity. The third is that they did not have enough data to understand their debtors.

The problem with the re-assessment of risk is that small business lending risk is closely allied to the severity of economic cycles. This means that much of the calculation of future risk depends on which view the bank takes of Britain achieving more stability.

Assuming greater stability in future, banks would be wrong to price loans to compensate for a similar wave of corporate failure. Such pricing would raise margins drastically, and would risk them losing market share to others, or to other forms of financing such as leasing and factoring.

Banks failed to assess the risks in the economic surge of the late 1980s

The second lesson is illustrated by the fact that NatWest estimates that 25 per cent of the 1m small companies who deal with the bank are continuously overdrawn. They are thus clearly not using the whole of their overdraft facilities purely as an occasional source of working capital.

The problem is what action banks need to take. The British preference for shorter-term sources of financing – notably the overdraft which is not available in many other countries – is not something banks can correct alone, although most are putting more effort into extolling fixed rate loans.

One answer would be to try to provide more equity capital to small companies on the model of Germany. However, few UK commercial banks have the expertise at branch level to feel confident in taking equity stakes. Moves towards developing venture capital expertise have so far been limited.

Nonetheless, UK bankers are getting increasingly worried about the traditional structure of lending. Mr Brian Pearse, chief executive of HSBC's UK subsidiary Midland Bank, has called for banks to find ways of encouraging equity stakes, including the offer of equity options to small firms.

The third lesson is that banks have discovered little they know about many of the 3.3m small firms with which they have relationships. Partly this is because some relaxed diligence of new propositions in the late 1980s as asset price rises seemed to make them needless.

Banks tend to argue that this is partly because companies do not know enough about their own businesses. Barclays Bank recently published survey figures showing that 54 per cent of British small businesses do not have a financial plan that includes budgets, and analysis of cash flow.

Nonetheless, banks are actively thinking of ways in which to encourage the businesses with which they deal to collect and forward more thorough information. Some banks are also trying to monitor account movements to identify earlier those companies which are heading into financial problems.

These developments pose two questions for small business financing. The first is whether particular banks are likely to build a greater market share by moving aggressively into the market while others hold back. The other is whether forms of non-bank finance will achieve more prominence.

As far as individual banks are concerned, the one most likely to build market share appears to be Midland. It has gained both greater capital strength, and treasury and trade finance resources from the HSBC acquisition last year. The bank has been emphasising this in marketing efforts.

As far as wider competition is concerned, leasing and factoring companies and bank subsidiaries are emphasising the benefits of alternative forms of finance. However, the overall structure of small corporate finance appears to depend above all on bank strategies.

For the moment, relatively weak loan demand means that banks and their customers are not faced by hard choices. But the hardest question for both sides is whether they will force the changes about which they are talking when the recovery picks up, and real choices have to be made.

Robert Peston on the secondary market in distressed corporate debt

Loans that change their spots

RELATIONSHIPS between banks and big companies have become increasingly fragile over the past few years.

Most banks have increasingly felt the need to pursue profit, which has had a number of consequences, not all of them pleasant, for companies.

Banks have, for example, diversified into new businesses, such as investment banking. It has been quite common for one of these new investment banking subsidiaries to give advice to a bidder in a takeover battle whose target has been one of the bank's own clients.

Needless to say, the client under attack is normally furious at what it sees as a breach of trust – the bank's argument that the investment banking subsidiary is acting as an independent entity, behind a "Chinese Wall", cuts no ice.

More recently, investment banking habits have been having an even more profound effect on the relationship between banker and corporate client.

Investment bankers regard all assets in their balance sheets as tradeable. Trading these assets is normally easy, because most of the assets are in the form of securities.

However, only a relatively small proportion of the assets of most banks are securities. Most of their balance sheets consist of loans, either to companies or individuals, which have traditionally not been tradeable.

In the past, when a bank made a loan to a company or individual, it was in effect contracting to maintain a relationship with the borrower till the loan was repaid. But not any longer. Many banks now want to be able to sell these loans.

The reason for this change is that the worldwide recession has left banks with little spare capital. The ability to trade in loans allows a bank to rapidly adjust the size of its balance sheet to a level best suited to its capital resources.

Over the past decade, three different markets in banks' assets have grown up. Two of these are now relatively well established: the market in bank loans to less developed countries and the market in mortgages and consumer loans, repackaged as securities, or securitised.

However, a third market is developing, the existence of which is having a very profound effect on the traditional relationship between banks and their corporate clients. This is a market in distressed corporate debt, or loans to companies which are experiencing financial difficulties.

Pen Kent: selling the debt may impede attempts to rescue a company

Until recently, when a company had financial problems, it would normally expect to negotiate a debt restructuring with the bank or banks which had originally granted its loans and which it felt it knew well.

However, a number of companies in difficulties have recently discovered – to their shock – that their banks have sold their loans to other financial institutions. In the past year, this happened to WPP, the advertising group, and to Isosceles, the supermarket operator.

Such sales can complicate the process of negotiating a debt restructuring, because the buyers of the debt may need time to get to know the company and understand its problems.

On the other hand, proponents of the new market argue that there can be a benefit stemming from such debt sales. A company's original bankers may have become so disenchanted with a troubled company that they will refuse to grant any new credit to that company. A new institution may, however, be rather less dogmatic.

The market developed first in the US five years ago. M J Whitman, one of the leading brokers of such debt, estimates that distressed US corporate debt with a face value – not to be confused with its sale value – of $5bn was traded in 1992, double the level of the previous year.

"This year, between $5bn and $7bn is likely to be traded," said Mr Peter Lupoff, who is in charge of corporate debt trading at the firm.

Lord Alexander: will not rule it out

When trading first began, the sellers were typically branches of non-US banks or smaller regional banks. They tended to sell their participations in syndicated loans granted to those companies with which they did not have a close relationship.

However, over the past year some of the biggest US banks, including Citicorp, Wells Fargo and First Chicago, have started to make such sales, particularly of loans to property companies.

"Some of the sellers in the past year were the agents for loans," said Mr Lupoff. In other words, banks have sold their interest in loans to companies even when they knew the company quite well.

Citicorp has formally recognised that banks have now acquired a trading psychology by producing an index of bank loans to companies, which in theory allows banks to compare the return of making loans to companies with the returns available from investing in securities.

The leading brokers in the debt, Whitman, Goldman Sachs and Oppenheimer, are now trying to develop the market in the UK. There is also one new UK firm, Klesch and Company, specialising in the market.

The UK market is still small. Like the US market in its early days, sellers are often foreign banks with branches in London – and they have tended to sell their debt participations in companies with which they do not have a close relationship.

But there have been trades in the debt of several companies in difficulties, including Maxwell Communications Corporation, Brent Walker, Isosceles, WPP, Guinness Peat Aviation, Eurotunnel, Heron and Polly Peck.

UK banks say they are hesitant to enter this market – though most are considering it. "It is not something we would rule out," said Lord Alexander, chairman of National Westminster Bank, the UK's second biggest bank.

An additional factor in the slow growth of the market has been that UK investment institutions, unlike their US counterparts, have not yet emerged as very enthusiastic buyers of the debt. However, they are being lobbied intensively by the brokers.

One reason for believing that a UK market may eventually take off has been the changing attitude of the Bank of England.

Its associate director, Mr Pen Kent, said in a speech last November that he was concerned that selling the debt of a troubled company could impede attempts to rescue it. "Selling debt in response to news that a company is in difficulty is not in keeping with one of the basic tenets of the London Approach [which is a Bank of England sponsored code of conduct for banks involved in rescuing a company]."

However, in June his tone had changed. He said that the sale of bank debt, especially property loans, to new investors, had "the potential for a beneficial and productive effect for a company in difficulties".

New investors might have expertise relevant to the company or might be able to take a longer term view of the returns to be made from the debt than the company's original bankers.

Much as companies may feel uneasy at the thought that they may not be able to decide from which institution they borrow, the new market is probably here to stay.

Norma Cohen on an attempt to beat the taxman over ACT

Scrip option plan has a short shelf-life

THE ability of Britain's corporate financiers to twist new financing techniques to the disadvantage of the taxman is legendary. But the problem of surplus Advance Corporation Tax for those with too low a corporate tax bill to offset has had them stumped for years.

Thus, there was a certain frisson in the City when BAT Industries, long dogged by unrecoverable ACT, announced its advisers had come up with a plan to tackle it. The plan, advanced by Barclays de Zoete Wedd, seemed simple.

BAT would offer to pay its shareholders their usual dividend in cash, incurring ACT on all those payments. But those who elected to take their dividends in shares, which do not attract ACT, could earn a dividend worth up to 50 per cent more. From the deal, BAT would save £97m in ACT charges and another £334.7m assuming that all shareholders took scrip instead of cash.

Even better, BZW told shareholders that they could achieve the best of both worlds, getting cash worth almost 50 per cent more than the dividend. BZW would operate a kind of resale facility, offering to buy – at no dealing cost – the extra shares at a discount to the market of only 5 per cent. Shareholders who exercised the scrip option but then sold the extra share allotment would still be better off than those who chose the initial ACT-attracting cash dividend.

So attractive was the technique that seven other big UK companies quickly announced plans for similar techniques. But then, things began to go sour. Just why they did so is a complicated story but ultimately, BZW acknowledges, enhanced scrip dividends are a virtuous product with a regrettably short shelf-life.

Mr Amir Eilon, managing director, corporate finance, at BZW and one of the architects of the structure, says the group began to think of ways to help companies around the problem of surplus ACT in 1991. Initially, BZW toyed with the idea of issuing A and B class shares, one of which would attract ACT and the other not. But previous experiments with that structure, along with the general distaste among investors for different classes of shares, led it to abandon that route.

Caroline Burton: 'I'd like my dividend in cash, thank you'

Amir Eilon: one of the architects of the structure

The enhanced scrip dividend structure, he says, is blindingly simple by comparison.

The problem with scrip dividends is that shareholders do not like them. In Britain, tax-exempt institutions such as pension funds find them unattractive because they are able to reclaim 20 per cent of the ACT paid by the company, so that the return on a cash dividend is even higher than it appears. Thus, scrip dividends have a traditionally low take-up of under 5 per cent.

The sheer volume of the BAT offer made it attractive to the institutions and overcame their initial distaste for new share certificates.

But after the initial euphoria, doubts began to creep in. The Association of British Insurers, one of the UK's most influential shareholder groups, said it was concerned about them. "These are like ice-cream," says a member of the ABI's investment committee. "They glisten at first but after they've sat in the sun for a while they don't look so good."

The ABI view is that, as a one-off arrangement to avoid unrecoverable ACT, the use of enhanced scrip dividends is to be welcomed. But by next year, its use should become obsolete because the Treasury has already promised to introduce foreign income dividends. These will help companies with foreign profits to pay dividends out of those profits without incurring an ACT charge.

However, the ABI is worried that companies will issue them repeatedly, in effect turning them into a rolling rights issue. A significant expansion in the number of outstanding shares raises questions about a company's ability to finance them.

After all, extra shares over time may force companies either to restrain their dividend increases or, worse, to cut pay-outs on each share. But BZW says that companies need only earn a 15 per cent return on capital to ensure that the dividend stream is maintained.

Shareholders are also concerned that the use of scrip could evolve into a kind of "fudge" for companies which are short of the cash necessary to pay the dividend, but are unwilling to say so publicly. Among the companies which issued enhanced scrip dividends was Forte, which also announced a cut in its dividend.

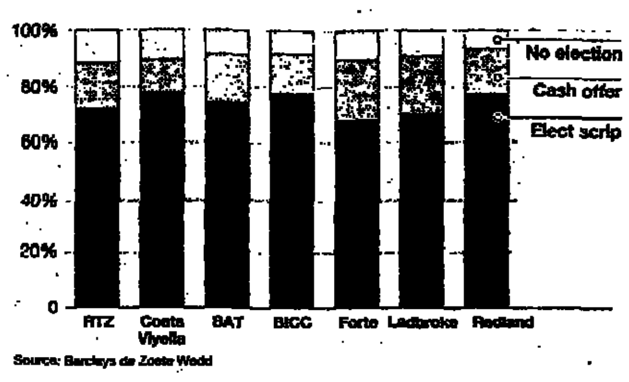
"If I want a company's shares I'll go out and buy them," says Ms Caroline Burton, director of investment management at Guardian Royal Exchange. "In the meantime, I'd like my dividend in cash, thank you very much."

However, the greatest controversy over enhanced scrip dividends is not over their efficacy but about the profits to be derived from advising companies on their use.

Swiss Bank Corporation caused a commotion when it saidlt would repurchase extra shares issued as dividends by BAT at a discount of only 2 per cent to market price, undercutting BZW's 5 per cent discount.

SBC said it could offer a smaller discount after applying an options model analysis to the offering and realising that the risk to the buyer justified a much lower fee. In defence of the wider discount it had sought initially, BZW said that, at the time, it had no idea what the take-up of the enhanced scrip would be and therefore, it judged the risks to be greater. SBC, it said, made its price offer with the benefit of hindsight.

Scrip v cash acceptances



Source: Barclays de Zoete Wedd

☐ Profile: 3i

Venture that went adrift

Wanted. New owner for Europe's largest venture capital company. Slightly shopsoiled from standing in the display window for the past two years but still a basically sound business.

WHAT is to happen to 3i, the grandfather of the British venture capital industry, after its clumsy attempts at a public flotation? Continuing uncertainty about the future of the largest provider in Europe – let alone in Britain – of equity and long-term loan finance to small businesses is a cause of some concern.

The repeated postponement of the planned flotation has dented the company's image and done little for staff morale. More important, small and medium-sized companies desperate to raise extra funds to finance growth may find that a key player is distracted from its primary business.

3i's problems came to a head in April when the banks which are its present shareholders announced an indefinite postponement of the flotation. Apparently prompted by a change of heart by Barclays and National Westminster Bank, which together own 41 per cent of 3i, shareholders said they would wait until the economy improved.

Mr Alan Wheatley, a former senior partner of accountants Price Waterhouse brought in as chairman to spearhead the flotation, stepped down.

There are now three main options open to 3i and its shareholders. They could:

■ Maintain the status quo. Pressure is off the banks, particularly Midland which is now part of HBSC Holdings, to raise funds by disposing of their stakes.

But while the banks might not be so desperate to raise money by the sale of 3i, the company itself is keen to top up its finances. It had planned to raise new money at the time of the flotation and is currently testing the market to see if it could raise a \$300m-\$400m fund.

In recent years 3i, like the rest of the venture capital industry, has shifted its emphasis to larger deals

This would, however, leave a fundamental problem unresolved: the big banks all have their own competing venture capital activities. In recent years 3i, like the rest of the venture capital industry, has shifted its emphasis to larger deals, bringing it into direct competition with the bank-owned venture funds. If 3i re-emphasised its focus on smaller deals, its shareholders would not complain.

■ Allow one of the banks, or another financial institution, to buy 3i. National Westminster is believed to have expressed an interest at one stage while 3i recently considered the possibility of a link-up with Charterhouse Development Capital. But the banks would be unwilling to see the fruits of 3i's long-term investment activities fall into the hands of a rival.

■ Allow a large pension fund investor or group of investors to acquire 3i. For most, this would represent no conflict of interest with existing activities and it should not provoke the jealousy a bank sale would. However, the poor returns from some of their investments have made pension funds cautious about venture capital investments over the past two years and there might not be many takers.

3i is in an unhappy position for a company which depends on making long-term investments. While uncertainty about the flotation persists, attention will focus on its own short-term prospects.

Charles Batchelor

☐ Profile: JARDINE MATHESON

An empire in the setting sun

THE PURGE of the board of Trafalgar House was completed recently, at the behest of Mr Simon Keswick, chairman of Hongkong Land, a sister company of Jardine Matheson.

Mr Keswick, who with his brother Henry in effect runs the Jardine Matheson empire, became chairman and installed Hongkong Land's finance director, Mr David Gawler, in the same position at Trafalgar.

In a dawn raid in October, Hongkong Land took a 14.99 per cent stake in Trafalgar and demanded boardroom representation

Jardine Matheson is one of the last of the traditional expatriate-run Hong Kong trading companies, whose assets range from hotels and offices in Hong Kong to a controlling stake in the UK supermarket chain Kwik Save.

Those unfamiliar with the ways of the Keswicks could be forgiven for thinking that Hongkong Land had just bought Trafalgar. But that is not how Jardine Matheson does business.

In a dawn raid on October 1 1992, Hongkong Land took a 14.99 per cent stake in Trafalgar and demanded boardroom representation. Trafalgar reacted by bringing forward some of its management changes.

But Hongkong Land tightened its grip by gradually taking its stake up to 25 per cent and had two of its directors, Mr Rodney Leach and Sir Charles Powell, appointed as non-executives.

Hongkong Land considered having Sir Charles take over as chairman but decided instead on Mr Keswick.

Sir Nigel Broackes, former chairman and founder of the group, described Hongkong Land's decision to take a stake in Trafalgar as "trying to get effective control without paying a bid premium". He now believes it was for the good.

Mr Leach, who is also a director of Jardine Matheson, said his group's involvement in Trafalgar should not be seen as a prelude to making an outright bid for the company.

"This is a long-term investment. We are not in the business of taking stakes as a prelude to making bids. We do not take the cheap, expedient way. We are interested in what the profits of Trafalgar will be in five years time."

Since Hongkong Land has taken effective control of the group there is no need to question Mr Leach's guarantee. This is born out by Hongkong Land's involvement in Kwik Save.

Dairy Farm International, the food retailing arm of Hongkong's Jardine Matheson group, recently increased its stake in Kwik Save to just over 28 per cent.

The UK supermarkets chain made record pre-tax profits of £110.5m in 1992.

In July 1987, Dairy Farm succeeded with its £147m partial tender offer for a 25 per cent stake in Kwik Save.

Net gearing at the last balance sheet was a mere 2.2 per cent and the group is effectively ungeared

Rowan Morgan, retailing analyst at Nikko Europe, says: "Over the last five years Kwik Save has produced the fastest earnings growth rate in the sector with the exception of Argyll. The quality of growth has been high, based upon strong like-for-like sales growth and organic store development rather than being dependent upon boosting gross margins."

Net gearing at the last balance sheet was a mere 2.2 per cent and the group is effectively ungeared. The Jardine Matheson empire may have hit on a controversial method of taking control of companies but if it continues to produce the sort of results unveiled at Kwik Save it is unlikely to be stopped.

Roland Rudd

CORPORATE FINANCE 6

FINANCING the transition from central planning to privatised market economies is all about creating capitalism without capital. Not surprisingly this unprecedented task has spawned some unprecedented "solutions", not all of them very healthy.

A recent study by Salomon Brothers of New York, for example, found that mutual default on payments between enterprises was the main source of financing economic activity in Russia during the first half of 1992. According to the June edition of Salomon's Russian Economic Issues, inter-enterprise debt rose 82-fold from Rbs39bn on January 1 to Rbs3,200bn on July 1 last year.

This uncontrolled explosion of funny money made a mockery of attempts to moderate inflation and obliged the government to permit the central bank to issue a surge of new money or face the consequences of forcing 90 per cent of industry and the financial sector into bankruptcy.

But the decision to print more money did nothing to help the grass-roots transformation of the economy which is taking place, but virtually in spite of government actions. Nearly half the new credits were used to prop up the discredited collective farm and agro-industrial sector and much of the remainder to sustain the military factories, the study concluded.

The growth of unregulated inter-enterprise debt is a problem throughout the former communist bloc and will remain so until a combination of bank reform, bankruptcy legislation and privatisation, separates out the hopeless loss makers from the basically sound enterprises which can be re-financed, down-sized where necessary and re-floated.

But this process is gathering pace, starting with the three central European states – Poland, Hungary and the Czech Republic. These are the most advanced along the path to privatisation and structural reform and the most attractive to foreign investors. But similar moves, albeit at an earlier stage, are also taking place in Bulgaria, Romania and the Baltic states.

Despite the low level of average incomes the past three years have seen a widening of income differentials and a growth of personal savings which has surprised most observers. After an initially hesitant start the mass privatisation programmes pioneered by former Czechoslovakia and Poland have also been enthusiastically received, turning millions of citizens into small-scale shareholders at an initial cost of a few weeks' wages.

Anthony Robinson assesses the capitalist revolution in eastern Europe

Structural reform gathers pace

Volkswagen have committed DM7bn to Skoda in the Czech republic

Fiat's $2bn commitment in Poland is attracting collateral investment

The foundations of a domestically-generated investment capability are thus being laid. But increasingly, economic policy-makers and advisers are emphasising the crucial importance of transforming primitive Soviet-style banking systems into effective conduits for the finance of industry and commerce. The central European states in particular are also forging ahead with the development of pensions funds, insurance companies and other institutional investors, hitherto totally lacking.

Much still has to be done on the banking front. But heavy investment in personnel training and on new equipment and premises, coupled with much foreign advice and extensive remodelling of banking laws on European Community lines, is changing the face of what is becoming an increasingly privatised and modernised sector.

Most banking business is still transacted by the big state-owned banks. But many are earmarked for privatisation and dozens of smaller private banks, unburdened by the bad debts of the past, have sprung up, although most remain small and under-capitalised.

The World Bank and the European Bank for Reconstruction and Development (EBRD) have singled out the banking system as a priority for reform throughout the region, with both helping various schemes to re-finance balance sheets stripped of inherited bad debts.

The EBRD, for example, recently took a 28 per cent stake in Poland's Wielkopolski Bank Kreditowy, the first of nine hitherto state-owned commercial banks hived off from the central bank three years ago to form the basis of a new, private, commercial banking system.

The much-criticised EBRD has been most active in Poland where more than 100 investment projects are in the pipeline. Most are for fledgling Polish private companies unable to obtain finance for expansion from the banks, although the bank's earliest operations throughout the region concentrated on co-financing deals involving foreign investors with track-records and wide experience in funding matters.

After a slow start the pace of foreign investment in the region is climbing steadily, although this complicated area, artificially cut off from the real world of financial and capital markets for decades, is having to compete against fast-growing Latin America and south-east Asia where market mechanisms already exist and where returns are usually quicker.

Foreign investment commitments totalling $28bn were chalked up last year, although that figure, compiled by East Europe Investment Magazine, is somewhat artificially boosted by large, long-term energy projects in Azerbaijan and Kazakhstan and a few mega-investments such as Volkswagen's DM7bn commitment to Skoda in the Czech Republic and Fiat's $2bn project in Poland. Strip out the energy deals, where spending will be over decades, and the actual equity capital inflow to the region since the fall of communism is $10-$12bn.

Investors have learned to distinguish between the former Soviet states, with the partial exception of the Baltic states and Kazakhstan, and former communist central Europe. Russia and most of the former Soviet states are for patient, long-term investors willing to ride with the punches and re-invest rouble profits for long-term growth and market penetration. Central Europe on the other hand is already well on the way to developing fully-fledged market economies with relatively stable political structures and western-style legal systems.

Hungary, which began market reforms 20 years ago and punctiliously services its large foreign debt, remains the favourite target for foreign investment, attracting more than $5bn since 1989. Earlier this year it pulled off a significant coup when Audi-VW decided to locate its new engine plant in Hungary rather than former east Germany. But Poland, with its large internal market growth potential and entrepreneurial ways, is rapidly emerging as a potential "Italy on the Baltic", with a fast-growing private sector shrugging off occasional political turbulence like post-war Italy.

Big German investment in the Czech Republic, spearheaded by Volkswagen, has brought a wide spread of collateral investments by component companies and similar developments are taking place in Hungary, where Suzuki is a rare Japanese investor, and Poland where Fiat's commitment is also drawing in substantial collateral investment.

Heavy investment by the multinational car companies seeking low cost production facilities and potential market growth is mirrored by a wide spread of multinational consumer goods corporations. They are bringing the joys of western-style detergents, tobacco, processed food and drink to the whole of central and south-east Europe, with the exception of war-torn former Yugoslavia which faces economic meltdown if the ethnic conflicts are not resolved.

THE departure of flagships Hongkong & Shanghai Banking Corporation and Jardine Matheson before the Chinese assume sovereignty in 1997 appears to symbolise the international image of corporate Hong Kong, but the reality could not be more different.

Far from struggling to lower their exposure to Hong Kong, most of the colony's businesses are expanding their investment portfolios in Hong Kong and in the land of its future masters.

When Britain and China signed a joint declaration sealing the fate of Hong Kong as a future Chinese territory, a corporate exodus was widely expected.

Jardine Matheson seemed to set a trend in 1984, when it moved its domicile to Bermuda, tacitly implying a lack of confidence in the post-1997 administration. It looked as if other companies might restructure asset portfolios in favour of safer havens, such as North America and Europe.

Indeed, some companies have dabbled overseas in property developments in Canada, California and Australia. But the track record of Hong Kong investors who have moved outside the cosy borders of the colony has been extremely poor, while those who stayed have prospered.

Mr Stephen Clark, director of Anglo Chinese, a local corporate finance house, says there will be no external flood of capital. "If there was going to be a move for the door, it would have already happened," he says.

One of the only Chinese conglomerates to make a significant push outside Asia is Mr Li Ka-shing's Hutchison Whampoa. In 1987 it purchased a 43 per cent stake in Canadian oil and gas producer Husky Oil – the investment was split between Hutchison and its associate Hongkong Electric. It followed this with the expansion of its telecommunications business into the UK in the early 1990s.

Husky contributed write-offs of $HK2.2bn for Hutchison in its 1991 and 1992 accounts. And if its UK telecommunications operations are for sale, as is believed, enormous losses would result.

Hong Kong businesses are expanding their investments in the colony

Patriotism seems to pay

Warburg Securities estimates that these two investments will reduce earnings between 1988 and 1995 by $HK4.5bn, even assuming there are no provisions against the telecommunications business.

There was little surprise, therefore, when Mr Li announced last year that Hutchison would refocus its attention on Hong Kong and China.

Hong Kong Chinese companies have long understood that those who cash in Hong Kong businesses to pay for overseas investments will be deemed unpatriotic and unsuitable for favourable treatment by a post-1997 regime.

Expectations of asset disposals have therefore focused on the four main expatriate-managed companies, Jardine Matheson, HSBC, Swire Pacific and Hongkong Telecom (HKT).

Mr Stephen Brown, research director of Asia Equity, says: "Only two of the British-style Hong Kong companies have decided not to play the decolonisation game, and have instead diversified overseas through acquisitions."

'If there was going to be a move for the door, it would have already happened'

HSBC has finalised its long-awaited takeover of Midland and its move into the international banking arena. Jardine, meanwhile, has completed its restructuring as a primarily a London listed company: recent expansion has focused on the UK, through Trafalgar House, and Singapore, through Cycle & Carriage.

Jardine Matheson has been publicly condemned for what is perceived as its lack of confidence in the future of the Hong Kong special administrative region. By contrast, its competitors have made every effort to build up their Chinese *guanxi* or connections.

Swire Pacific and HKT have recognised the changing environment by offering shares to China International Trust and Investment Corporation (Citic), the local offshoot of the Beijing investment corporation. Citic Pacific, the largest China-controlled listing in Hong Kong, now holds 12.5 per cent of Swire's airline Cathay Pacific and 12 per cent of HKT.

At the same time, Swire and HKT have expanded their operations across the border into China. Swire Properties has cemented the relationship by launching a HK$2.85bn property development with Citic.

Hong Kong offers investors a high growth economy and a cosy, tight-knit business community. Insiders start with a significant advantage, but this is not transferable.

Most overseas investments have been mere extensions of a domestic strategy. In 1988 and 1989, for example, Regal Hotels, New World Hotels and Wharf Holdings each purchased US groups – Aircoa, Ramada and Omni respectively. The total cost of these hotel investments was US$535m, and while all were expected to benefit from existing operations, they have proved to be ill-timed purchases.

Dickson Poon's more recent HK$750m purchase of Harvey Nichols was also a strategic decision to acquire another brand name for Dickson Concepts' luxury goods distribution business, rather than just a real estate gamble.

These investments pale by comparison with the level of capital flows between Hong Kong and neighbouring Guangdong province. Mainland Chinese investors have made substantial inroads into the Hong Kong property and stock markets. Over the next year, nine mainland registered state enterprises will be floated on the Hong Kong stock market, further emphasising the link.

In the other direction, Credit Lyonnais Securities estimates that the average Hong Kong listed company has made two investments in China, and the aggregate value of these projects (including the investment by the joint venture partner) amounts to HK$521bn.

All the leading corporate finance houses now have China teams, pointing up the irony of Jardine's lone push towards internationalisation, given its historical background as the Princely Hong and pillar of the colony's business community.

Jardine has had some overseas successes, notably through its supermarkets subsidiary Dairy Farm – which has significant holdings in Kwik Save in the UK and Franklins in Australia. Its stake in Trafalgar House is viewed by many as another astute move.

But as the group's percentage of earnings from Hong Kong declines, so will the level of its influence. China has already indicated the potential problems this could cause, by setting obstacles to its proposed investment in Container Terminal 9.

Simon Davies

INSIDE

Who gets what in BT3: provisional allocations

Themaximumnumber of shares an individual is likely to receive in the BT3 sale is 30,000. Only qualifying BT shareholders who applied through share shops can get the maximum, although they would have to have applied for at least 100,000. Applicants for the minimum 120, whatever the avenue, are set to be satisfied in full, as are qualifying BT shareholders who put in for up to 600 shares. Full details, Page 16

Rare defeat for Mr Li

MrLiKa-shingand Mr Larry Yung have suffered a rare defeat in the HK$9.65bn bid for Miramar Hotel and Investment, which has property assets on the Kowloon peninsula. The joint offer made by their companies received acceptances equal to less than 14 per cent of the company. Page 17

Designer doldrums

USfashiondesigner and manufacturer Liz Claiborne has warned of a 30 per cent decline in annual earnings only a day after the unexpected resignation of vice chairman Mr Jay Margolis. The shares have tumbled to their lowest level in several years. Page 17

French bond wobbles

Attacksonthefranc have cast a shadow over the French bond market, raising the question of whether the French government will raise interest rates. Such considerations were evident in last Thursday's FFr18bn issue of two-year and five-year bonds. The average yield of 5.95 per cent on the shorter-term issue was higher than expected. Page 18

Prospective p/e ratio

Thelatestprospective p/e ratio for the "500" index for calendar 1993 is 14.4, according to IBES, the consensus estimates service (last week: 14.5). This compares with an IBES estimated p/e for the "500" of 19.0 (19.2) for calendar 1992. The official FT calculation of the historic p/e, based on the latest reported earnings, is 18.91 (19.10).

Whatever happened to Sid?

HardlyaUKprivatisation goes by without a minister citing the virtues of Britain's share owning democracy. Yet with most of the big privatisations completed, the evidence suggests that the government has failed in its wider share ownership objectives. Page 16

Market Statistics

Companies in this Issue

Microsoft may face court order

by Louise Kehoe in San Francisco

THE US Federal Trade Commission is scheduled to convene on Wednesday to consider the results of a near three-year anti-trust investigation of Microsoft, the world's largest computer software company.

Investigators from the FTC's bureau of competition are believed to have recommended that the commission seek a federal court injunction against Microsoft. They allege that the company has improperly used its monopoly position in the market for PC operating system software to disadvantage competitors.

Throughout the investigation, Microsoft has denied any wrongdoing, insisting that it is "co-operating fully with the FTC investigation".

In February, the commission's attempts to make a recommendation reached deadlock, with two commissioners voting in favour of taking action against Microsoft, and two voting against. A fifth commissioner, claiming a conflict of interest, excused himself from the case.

At this week's meeting, the commission will be presented with a much simplified and narrowed case against Microsoft, according to Ms Wendy Goldman Rohm, author of a soon-to-be published book called The FTC versus Microsoft: The inside story.

The revised case focuses on allegations of "technological tying" of Microsoft's widely used Windows program to its MS-DOS PC operating system, according to Ms Goldman Rohm.

Microsoft has been accused by competitors of attempting to raise false concerns among customers that its Windows program does not work properly with operating system programs sold by competitors. There are also complaints that it has linked product warranties to the use of its MS-DOS operating system.

If the commission reaches deadlock again on the Microsoft case, the US Justice Department, which also has jurisdiction over anti-trust enforcement, may take up the matter, Ms Goldman Rohm says. "There is considerable political pressure being brought on the commissioners not to just drop the case."

Yet even if the revised case against Microsoft is pursued by the FTC, the outcome could be "commercially insignificant", Ms Goldman Rohm predicts.

She says the FTC is unlikely to seek "structural remedies", such as breaking up Microsoft into two separate companies. Instead, the Commission may simply issue a "cease and desist" order against the company.

David Lascelles explains why UK electricity companies are venturing abroad

Power lines unleashed from home base

Two and a half years after they were privatised, Britain's electricity companies are developing ambitions to break out of their home market.

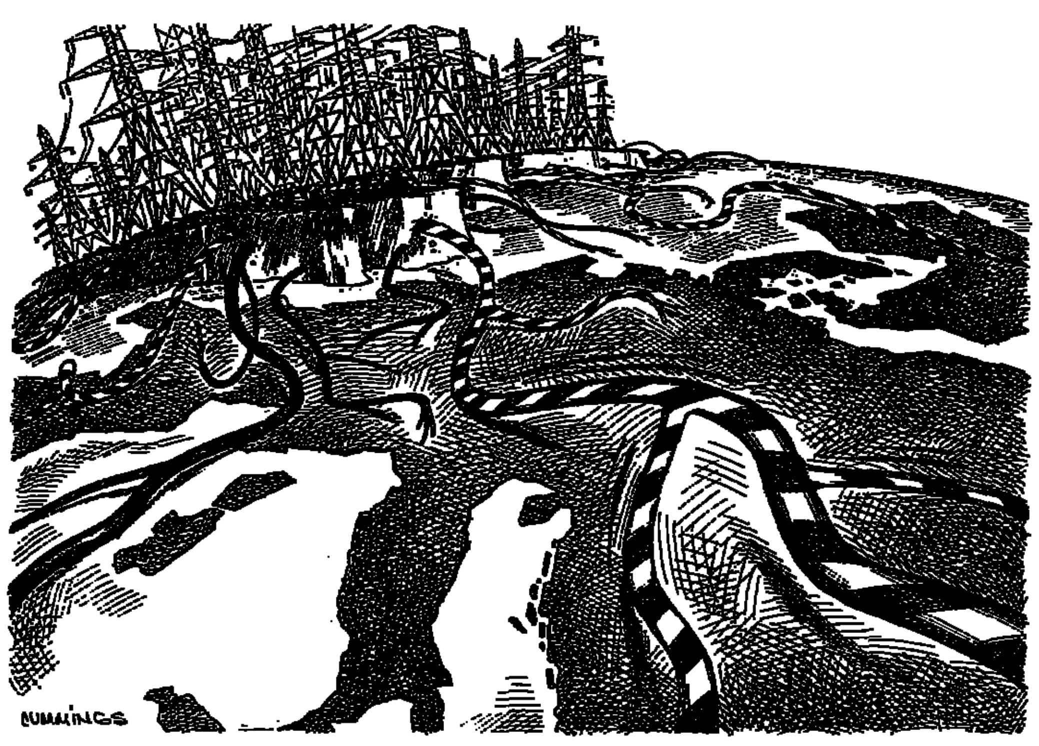
Both the large generation companies, National Power and PowerGen, have announced projects in places as far apart as India, eastern Germany and the US. Some of the regional electricity distribution companies are also looking overseas.

These wider aspirations are understandable given the crowded nature of the UK power market with its large surplus of generating capacity. But the news has been received with caution on the stock exchange. Investors are not sure whether utilities should be chasing business abroad, and they are watching developments carefully.

Mr John Baker, chief executive of National Power, puts his company's international case bluntly. NP's share of the UK generation market is being whittled away by new competitors, such as Nuclear Electric and the independent power producers, and will probably fall below 40 per cent quite soon. To achieve growth, NP must either diversify out of electricity, which it is unwilling to do, or try to sell its electricity expertise in new markets.

What particularly attracts NP overseas is an estimate by the World Bank that 800,000MW of new electricity capacity – more than 10 times the capacity of the UK electricity industry – costing £500bn will have to be built globally over the next 10 years, much of it in the Third World. NP is prepared to commit £1bn ($1.5bn) to this market, a sum which, geared up as power projects usually are, could involve it in £15bn of power stations.

PowerGen, NP's smaller competitor, is also worried about pressures on the home front, so it commissioned McKinsey, the management consultants, to assess its chances overseas. McKinsey identified 350 companies with the strength to compete in the international power market, and placed PowerGen among the top 10. This, Mr Ed Wallis, PowerGen's chief executive says, helped persuade him to pursue opportunities abroad.



Both NP and PowerGen are keen to play down the risks in their strategies.

Mr Graham Hagley, NP's managing director for international business development, says the company intends to build a mixed portfolio of overseas investments in which those with high risks and high rewards are balanced by others which are less exposed financially, but produce lower returns.

NP's recent $160m acquisition of TEVCO, the owner of seven power plants in the south eastern US – its largest so far – falls into the second category, and provides "ballast" for higher risk ventures in areas such as the Indian subcontinent and the Far East.

One of these involves NP teaming up with Ashok Leyland of Madras to build a 1,000MW coal-fired station in Andhra Pradesh at a cost of £1.3bn. "Our concept is to hold a significant stake and have long-term operating responsibility," says Mr Hagley. NP could contribute expertise both in the construction and management of the project.

PowerGen is sticking closer to home. Its major projects so far have been in Portugal, where it is participating in a gas-fired power station, and in eastern Germany where it is negotiating with other partners to buy a power station and the nearby coal mine which supplies it.

"We're not running a race," says Mr Wallis. "We're being a bit sniffy, looking for quality investments. We're telling our shareholders that we're limiting ourselves to activities for which we have the management skills." PowerGen is unlikely to go into either the US, which is too competitive, or India because of the risks, but it is looking at the Asean states and China.

In particular he hopes that cementing PowerGen's links with German partners will give it a base for expansion into the east European market.

But competition in the international power market has intensified in recent years. The main players include large US utilities, and manufacturers of power generating equipment in North America and Europe. Among the UK electricity distributors, Midlands Electricity has teamed up with Enron, the Houston-based gas company, and several US utilities in a joint venture called Wing Merrill International, which is looking at projects in Kuwait, Turkey and China.

The risks are high. Mr Wallis estimates that 50 per cent of international power projects fail to get off the ground. People are bamboozled by over-optimistic profit forecasts, or fail to do their homework properly. "There are often skeletons in the cupboard," he says.

Analysts have said that PowerGen's project in Portugal could run into trouble because the power station was started before the government reached agreement on how to ship in the gas. But Mr Wallis said the delay on gas was foreseen and his company is not exposed financially.

One of the precautions that National Power took before embarking on its Indian project was to secure a guarantee from the Indian government that it would receive all the payments and dividends due to it.

All of which explains why investors are cautious. Mr Alex Milne, electricity analyst at Barclays de Zoete Wedd, says that foreign markets are a "reasonable area" for UK generators to look at, given their technical expertise and financial strength.

He applauds their measured approach, but in such a new market there is little way of judging how successful their investments will be. "You have to take it on trust that they are not going to shovel a lot of money down a big black hole".

Investors cool on 'China stock'

By Simon Holberton in Hong Kong

THE HONG KONG portion of a HK$2.9bn ($370m) capital raising for Shanghai Petrochemical, the largest of nine state-owned Chinese companies to be listed in the colony, was only 1.77 times subscribed.

In Hong Kong, where new issues are usually many times subscribed, local investor response was seen as disappointing. However, the issue would have fared worse had not the two issuing houses subscribed for half the shares.

Mr Wang Jiming, chairman of Shanghai Petrochemical, said: "The Hong Kong offering would have been subscribed 1.24 times without the applications from Merrill Lynch and Peregrine Capital."

Shanghai Petrochemical is offering 1.68bn H shares – 30 per cent of the company – split equally between Hong Kong and the rest of the world. The subscription price will be established by a tender in New York. The company's advisers have set a guide price of between HK$1.55 and HK$1.74 a share.

Since the company came to the market on July 6 concerns about the Chinese economy have lessened the appeal of "China stocks". Equally important, investors found the pricing of Shanghai Petrochemical too aggressive.

Most new issues in Hong Kong are floated at six to eight times prospective earnings – leaving plenty in it for "stags". Judging by the guide range, Shanghai Petrochemical is priced on a prospective p/e of 12.3 to 13.8.

Standard Chartered and Wardley backed out from underwriting the Hong Kong portion of the issue.

The "failure" of the Hong Kong float drew sharp criticism of the colony's financial community by Mr Philip Tose, chairman of Peregrine.

He accused his fellow merchant bankers of not understanding that underwriting was about accepting risk. He also called for Hong Kong's system of pricing new issues to follow US practice where tenders are used.

He said the issue was seeing heavy demand internationally, but "because of the way it has to be offered in Hong Kong we got the tail wagging the dog."

● Guangzhou Shipyard International, owned by the People's Liberation Army, plans to list in Hong Kong early next month.

History lesson on how to raise taxes

Economics Notebook

By Peter Norman

The European Community has just woken up to a crisis in its public finances.

EC economics and finance ministers agreed a week ago, that they would have to take tough action to cut national budget deficits, including possible tax increases.

The problem is daunting. According to the EC's economic policy committee, net general borrowing by EC governments has risen steadily to more than 6 per cent of national income this year, compared with 2.7 per cent in 1989.

During the same period, state spending has jumped more than 5 percentage points to a record 52 per cent of gross domestic product, and the share of tax and social security contributions has risen by 1.5 points to almost 46 per cent – also a record.

But increasing taxation is no easy matter. No-one likes paying taxes at the best of times. Moreover, the EC's political leaders are nearly all unpopular. Higher taxes can easily translate into defeat at the polls.

In this uncertain world, Mr Ken Messere, until 1991 the head of the fiscal affairs division of the Organisation for Economic Cooperation and Development, has produced a valuable guide on tax policies in the main western industrial countries.

His Tax Policy in OECD Countries: Choices and Conflict* offers no magic cure. But drawing on 30 years' experience with tax policy matters and 20 years as the OECD's top tax expert, he provides a mine of information about where governments have gone wrong and gives valuable clues as to what they should and should not do.

Mr Messere is no instinctive tax cutter. He can barely conceal his distaste for the antics of politicians in the 1980s, who (especially in Britain) cut taxes for ideological reasons and argued that the changes would enhance economic performance.

With the advantage of a long perspective and an erudite approach to taxation that takes in the observations of Pliny the Younger, St Thomas Aquinas and the November 1992 Catholic Church Catechism, he takes a dim view of the happenings of the past 30 years. "Any watcher of revenue developments can hardly fail to be struck by the irrationality of countries' tax policies over most of the period."

One irrationality, in a supposedly interdependent age, has been the failure of most OECD governments to pay attention to tax policy changes made by other governments to solve similar problems.

Another is the way that the total tax ratio, that is the ratio of total tax revenues to GDP, has fallen in many countries since the mid 1980s without a corresponding fall in government outlays.

This trend has been accompanied by a generally welcome convergence of industrial country tax ratios. But great differences remain in the way governments raise tax revenues.

This is especially true of the four biggest EC member states: Germany, France, Italy and Britain.

● France has the lowest dependency of any major industrial country on revenues from personal income tax – only 7.5 per cent of GDP in 1990. The reasons include antiquated collection methods and high thresholds that exempt nearly half the population from paying tax. Against this, it relies a great deal on social security contributions.

● Germany, which is struggling with huge deficits caused by unification, has the lowest standard value added tax rate in industrialised Europe at 15 per cent, and VAT and income tax ratios that are below the European average.

● Italy, on Mr Messere's reckoning, has no pronounced tax eccentricity. But its tax administration is notoriously deficient.

● Britain, whose government so prided itself on tax reform in the 1980s, has a poor tax policy record in Mr Messere's view. It has the narrowest VAT base in Europe, zero-rating such items as foods, new dwellings, books, children's clothes and sewerage services.

UK tax policy has been influenced far more than in other states by party political preferences, because Britain's "first past the post" electoral system has given the executive arm of the UK government more power to change taxes than governments on the continent.

Some consequences for taxation have been bold, innovative and rational: Lord Lawson's 1984 reform of corporation tax falls in this category.

Others such as the poll tax or the selective employment tax introduced by Labour in 1966 were simply "crazy", according to Mr Messere. Nor is he very enthusiastic about the council tax. He notes that it combines various features of a property tax, a household tax, a poll tax and an income tax, "which has never been contemplated by any other OECD country".

Differing tax structures among EC member states may help explain their varying economic performance. For example, France's greater dependence on employers' social security contributions to provide state revenues may be one reason why French unemployment stayed so high in the 1980s and is now rising very sharply in recession.

But the differing structures could also present an opportunity to governments that now must think about raising tax to eliminate deficits. Peer group example and pressure are already being used to soften up electorates for potentially painful cuts in welfare spending.

Ironing out differences in tax structures among EC states could provide a suitable cloak for European governments wishing to boost revenues in the 1990s. Handled carefully, the process could even smooth the competitive playing field for businesses and individuals, promoting the single market.

Clearly, much would depend on how the additional tax revenues were raised. Mr Messere points out that it is sensible to diversify sources of increased tax revenue to reduce taxpayer discontent. This may seem obvious, but it has been ignored by many governments.

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T&N cited as latest suitor for Lucas

By Steve Thompson

T&N, the British motor components and engineering group, is understood to have approached Lucas Industries to discuss a possible friendly link-up, but it has been rebuffed by the aerospace and motor components manufacturer.

T&N declined to comment yesterday on suggestions that it was seeking an agreed merger with Lucas. Mr Mark Herbert, corporate communications manager at Lucas, described the reports as "rumour and speculation".

Takeover speculation concerning Lucas has been rife for some time. Earlier this year BTR, the industrial group, was strongly rumoured to be interested in acquiring the company. More recently Siemens, the German engineering and electronics company, has been cited as the most likely bidder.

A merger of T&N and Lucas would create a group with sales in excess of £4bn. T&N is thought to have expanded an original plan which intended a merger of its brake-linings business with that of Lucas.

Lucas is seen by many in the City as lacking strong management. It has failed to appoint a new chief executive, despite a lengthy search, and a new non-executive chairman to succeed Sir Anthony Gill, who is scheduled to step down in October.

Another demoralising factor has been its poor profits performance. In March it announced pre-tax profits of £5.2m on turnover of £1.29bn for the six months to the end of January.

Bid for William Hill still under consideration

By Maggie Urry

BANKS OWED £350m by the William Hill betting shop chain, owned by Brent Walker, are still considering a possible £360m bid from a consortium of institutional investors put together by SG Warburg.

Sir Keith Bright, chairman of the troubled property and leisure group since January, is understood to believe William Hill is worth significantly more than £360m, and that the bid is not in the interests of all creditor banks, owed over £1.3bn.

A sale at that price would require another balance sheet write off for Brent Walker, and further reduce its chances of servicing other debt.

However, the William Hill banks have a right to pursue the bid and could see loans repaid in full if it was accepted.

The banks looked at an outline bid at an otherwise routine meeting last Friday called to discuss options for the refinancing of William Hill, which must go through by March 1 William Hill's loans are "ring-fenced" from Brent Walker.

The Warburg bid, on behalf of investors Mercury Asset Management, Electra, Morgan Grenfell and Midland Montagu, is far from being finalised.

Under the William Hill loan agreement the company is bound to pursue any serious offer made. The banks have the right to vote on such an offer. If a vote goes against a bid, any banks which were in favour of accepting gain a higher security ranking for their loans than those voting against. This would effectively make their loans safe.

But a higher sale price – perhaps through a flotation – would generate surplus cash for Brent Walker. There is a conflict since banks which have lent to Brent Walker represent 57 per cent of the loans to William Hill. Therefore, those banks which are in both syndicates could block the bid, but if they did the other William Hill banks' debt would gain security over theirs.

Brent Walker's advisers believe a flotation, taking advantage of the current strength of the new issue market, could raise more for William Hill, although suggestions of a £500m value are regarded as "optimistic" by some.

Another attraction of a flotation would be that Brent Walker could retain a stake in William Hill which would be worth more in future years if its profits recover as expected.

Enlarged net fails to make a big catch

Roland Rudd on the apathy of small investors to the government's plan for wider share ownership

HARDLY a privatisation goes by without a minister talking about Britain's share owning democracy. The government's third and last sale of BT shares is no exception.

In the run-up to the trading of the partly paid shares, which starts today, Mr Stephen Dorrell, financial secretary to the Treasury, frequently cited the flotation as evidence of the government's commitment to "widening and deepening share ownership".

The government justifies wider share ownership on the basis that it involves individuals directly in the economic success of UK companies as well as allowing them to build up security for the future. On that basis, say government advisers, the retail investors will today be pleased to have bought their shares and should have the added satisfaction of making a small profit.

Yet with most of the big privatisations completed the evidence suggests that the government has failed in its objective.

The government points out that the number of small shareholders has increased from around 3m in 1979 to peak at 11m in 1991, although it has recently fallen back to 9.26m, which government advisers blame on the recession. In percentage terms the proportion of the adult population owning shares is around 21 per cent compared with just 9 per cent in 1979.

Institutions, however, account for a bigger percentage of shares in privatised companies than ever before. According to the partly-government funded ProShare, which tracks share ownership, pension funds and insurance companies hold more than half of all shares in privatised companies compared with 20 per cent held by small shareholders.

Mr David Jones, chief executive of ShareLink, the telephone-based stockbroker which is about to float on the Stock Exchange, says the problem is of the government's own making. He believes concepts such as "share owning democracy" and "widening and deepening share ownership" are not sufficiently defined by ministers for the public to know whether they have succeeded or failed.

BT3 – Provisional allocations to non-employees

Number applied for	Qualifying BT shareholders applying through: Share shops	Share info office	Non-shareholders applying through: Share shop	Share info office	Public application forms
120	120	120	120	120	120
200	200	200	200	200	150
300	300	300	300	270	180
400	400	400	400	300	210
500	500	500	450	330	nil
600	600	600	480	360	nil
700	700	630	510	375	nil
800	800	660	540	nil	nil
900	825	690	570	nil	nil
1,000	840	720	585	nil	nil
1,500	1,020	840	600	nil	nil
2,000	1,110	900	nil	nil	nil
2,500	1,200	960	nil	nil	nil
3,000	1,350	1,020	nil	nil	nil
4,000	1,650	1,200	nil	nil	nil
5,000	1,800	1,350	nil	nil	nil
10,000 & above	30% †	20% ‡	nil	nil	nil

†Max 30,000 ‡ Max 20,000

His own evidence suggests that retail investors currently have a greater appetite than ever to buy and sell shares. This is borne out in ShareLink's pre-tax profits, which rose from £1m to £3.1m in the year to March 31 without any privatisations or big share issues.

It was the privatisations that the government hoped would bring about a cultural change in share ownership. But there seems to be a reluctance by investors to go on and buy shares in other companies after taking part in a privatisation issue. ProShare's figures show that 72 per cent of all retail investors hold shares in only one or two companies.

The government has sought to rectify this by extending the concept of share shops first used in the 1991 BT sale. Ministers hope that many retail investors who buy shares in BT3 will be enticed by their broker, building society or bank, to buy shares in other companies.

Mr John Cobb, chairman of the Association of Private Client Investment Managers and Stockbrokers, describes the decision to extend the number of share shops from eight to around 150 as a "significant step forward".

Many of the share shops, however, are less enthusiastic. Mr Tony Vine-Lott, chief executive of Barclays Stockbrokers, says: "The share shops have not been adequately put across by the government or its advisers." Of the 1.66m people applying for shares in BT3, 978,000 decided to go through a share shop as opposed to registering with the Share Information Office.

Where the government has had more success is in its efforts to entice retail investors to buy shares in a privatisation issue when there is little possibility of making a big profit on the first day of trading.

Less than 10 per cent of the 1bn shares bought by retail investors in the last BT sale were sold during the first month of trading. That compares with more than 35 per cent of shares sold in the regional electricity companies in the first month of trading.

Mr Neil Stapley, managing director of NatWest Stockbrokers, says the Treasury's policy of tight pricing has eliminated the possibility of "stagging", whereby investors only bought shares in privatised companies to sell on the first day of trading.

The chances of making such a profit on BT have been virtually eliminated by the government, notwithstanding the retail investors' 10p discount on each of the three instalments.

The majority of retail investors buying shares are expected to remain long-term holders of BT. After the initial privatisation of BT in 1984 the telecommunications company had 2.1m small shareholders. This fell to around 1m four years later. Following the second sale of government shares in 1991 the number of individual shareholders in BT rose to 2.6m. This has recently fallen to 2.2m.

But the rate of attrition is slow compared to the early privatisations. British Aerospace, for example, one of the first companies to go public in 1981, attracted 26,000 retail investors, which slumped to just 3,000 soon after the sale.

This is success of a kind, but it is not what the government hoped for when it embarked on its wider share-ownership campaign in the eighties.

When all the razzmatazz of today's flotation is over the government still has to persuade hundreds of thousands of BT shareholders to buy and sell shares in other companies.

The evidence to date suggests that BT3 will not halt the inexorable slide in the proportion of individuals owning shares.

NEWS DIGEST

Arlen to seek £7m via rights

ARLEN, maker of fluorescent control gear and accessories, is raising substantial funds for development and reduction of indebtedness with the backing of Fortress Trust.

Fortress will underwrite a significant part of 1-for-1 rights issue by Arlen at 21p per share to raise some £7m gross. If Fortress does not acquire 29.9 per cent of the capital through rights renounced or underwriting of shares not taken up, then it will subscribe directly for shares at 23.5p as will equate to a 29.9 per cent shareholding. That could raise up to a further £2.4m.

The directors of Arlen have noted the recent movement in the share price – on Friday it rose 7p to 35p. They say the rights at 21p was agreed against the background of the quote of 14p when discussions commenced in March until early May, when the share price began to increase.

Mr Greville Howard, chairman of Fortress, and three of his non-executive colleagues, will become directors of Arlen.

Evans & Price

Industrial Metal Products Corporation, a Michigan-based machinery group, has taken an 80 per cent stake in Evans & Price, the Tamworth-based specialist machine tool builder, for an undisclosed amount.

Evans & Price has marketed micro-finishing machinery built under license from Impco for the past 10 years, and sees the new relationship as a way to accelerate penetration of the European market.

BISS

BISS, a supplier of computer networking systems to blue chip companies, has been bought out by its management from the parent BICC, the cable and construction group. The deal was worth £7.6m.

3i led and arranged the finance for the MBO and invested nearly £2m for a stake in the business. Other investors include Lloyds Development Capital, and bank facilities of £2.75m were arranged by NatWest Acquisition Finance. BICC has also retained a financial interest in the company.

BISS was formed in 1989 and is based in Hertfordshire. As well as being involved in designing and installing networking systems, it is active in systems integration, communications software and IT consultancy services.

Business Technology

Business Technology Group, which sells and services photocopier and facsimile machines, vending and communication equipment, is raising £2.2m net through a 5-for-4 rights issue at 10p per share. On Friday the shares gained 1p to 16p.

The proceeds will significantly strengthen the financial position, reduce further the indebtedness, and help the group make acquisitions to expand the machine base and geographical coverage.

The capital will be reorganised into 5p shares, and up to 26.2m will be on offer. Apartglobal and Mr Stephen Evans have agreed to underwrite 11m and 15.17m shares respectively. The underwriting arrangements provide that minimum proceeds will be £1.1m net.

Despite competitive market conditions and lower photocopier and facsimile machine sales, the group had traded profitably in 1993. Further cuts in indebtedness had been achieved.

CROSS BORDER M&A DEALS

BIDDER/INVESTOR	TARGET	SECTOR	VALUE	COMMENT
Blackland Oil (UK)	Kingsleigh Petroleum (China)	Energy	£26.7m	Payment by shares
Avonmore (Ireland)	Unit of Dairy Crest (UK)	Dairy products	£20.5m	Anticipating market changes
Yorkshire Food (UK)	Del Monte Dried Fruit (US)	Food	£17.8m	Buying 80% stake
France Telecom (France)	Sema Group Facilities Management	Facilities management	£8.8m	Sema sells 24.5% stake
Life Sciences International (UK)	ALKO Diagnostic Corp (US)	Scientific equipment	£4.3m	Cash buy
Nokia (Finland)/Mitsui & Co (Japan)	Joint venture	Mobile telecoms	£1.8m	Mobile marktng venture
Mid-States (UK)	Harts Autoparts (US)	Car parts	£1.2m	Deferred element
Thomson CSF (France)	Unit of Siemens (Germany)	Electronics	n/a	Consolidating market position
Bancorp Holdings (New Zealand)	International Pacific Securities (Australia)	Banking	n/a	Takeover spcist taken over
Sandoz (Switzedand)	Veneziani (Italy)	Construction	n/a	Buy through Italian arm

Portman television production group buys Carlton unit

By Raymond Snoddy

PORTMAN Entertainment, one of the UK's longest established independent production companies, has bought Zenith Productions from Carlton Communications and Paramount Communications of the US.

Zenith and Zenith North, based in Newcastle, have been on the market for some time. Best known for television programmes such as *Inspector Morse* and films such as *Prick Up Your Ears*, they were put up for sale following Carlton's successful bid for the London weekday ITV franchise.

An ITV broadcaster can hold no more than a 15 per cent stake in an independent television production company.

Portman was founded in 1944. It was restructured a year ago with more than $5m (£3.3m) of new financing in a deal struck with Television Enterprise and Asset Management, backed by Rockefeller in the US and Robert Fleming, the merchant bank, and Primetime, the independent producer, in the UK.

The price of the deal was not revealed, although a statement referred to "a transfer of shares". Mr Bernard Cragg, Carlton's finance director said he was pleased to have found "a suitable home for Zenith so that the company will be able to continue to supply high quality independent programmes to the ITV and other broadcasters".

Bank support for UK Land rescue

BACKED by its secured banking creditors, UK Land plans a reconstruction of capital and the raising of £256,000 ($384,000) to meet that expense through a fully underwritten rights offer.

This will provide UKL with a "sound financial base" from which it can develop by maximising the revenues from the Elephant & Castle shopping centre in London, its main asset, and subsequently seeking property acquisitions.

The alternatives to the plan are insolvent liquidation, administration or receivership.

Every 22 existing ordinary shares will be consolidated into one ordinary of 5p and one deferred of 545p – the latter will later be cancelled.

A total of 5m new ordinaries, or 64.44 per cent of the new capital, will be issued to creditors. Lloyds Bank will be issued 2m, a syndicate of banks will get 2.35m in respect of their secured advances, and unsecured creditors under a company voluntary arrangement will be issued 650,000.

An open offer of up to 2.56m shares at 10p each (33 per cent of the capital) will be made to shareholders on the basis of 13-for-one. A shareholder with 1,100 existing shares would receive 50 new shares from the consolidation and be able to subscribe for 650.

Lloyds Bank will also be allotted £250,000 worth of 10 per cent convertible secured loan 2003, convertible into 1.84m shares, unless that pushed Lloyds' holding to more than 29.9 per cent of UKL voting capital.

Issued capital following the proposals will be 7.76m shares, or 9.6m on a diluted basis. Mr James Grace and Mr Christopher Woodhouse, who are sub-underwriters, will join the board.

The existing facility from Bank of Scotland will be converted into a £9m term loan, repayable 1998-2003, and a £2.3m overdraft, reducing over the five years to April 1988. The facilities will be secured by a charge over the Elephant & Castle. Lloyds and the syndicate banks may require Lillybrook, the underwriter, to purchase up to 2m shares of their entitlement at 10p each.

EMC plans to double capacity of Irish plant

By Lousie Kahoe in San Francisco

EMC, a fast-growing US manufacturer of computer data storage and retrieval systems, has announced that it plans to double the capacity of its manufacturing facility in Cork, in the Irish Republic.

The expansion, which is scheduled for completion by the end of the year, will create about 120 new jobs in a region that has been hard hit by cuts at other computer companies, including Digital Equipment.

EMC's products include data storage systems for use with IBM mainframe and mid-range computers, as well as Unisys mainframes.

Most of the company's revenues derive from its Direct Access Storage Device (DASD) product line, which competes with similar products offered by IBM.

The company is also an early leader in the emerging disk array market, for data storage systems based upon a collection of small disk drives, such as those used in personal computers.

Disk arrays provide faster data retrieval as well as offering higher storage capacity than conventional data storage systems.

On Friday, the company reported record results for the second quarter of 1993, with a 115 per cent increase in revenues to $170.9m and net earnings of $27m, compared with $6.1m for the second quarter of last year.

Revenue from a recent agreement to supply Groupe Bull, the French computer company, with disk array products is running ahead of plan, said Mr John Egan, EMC executive vice-president.

The company said that it has received assistance from Irish development authorities for the $20m manufacturing expansion, which will help EMC serve the European and Asian markets.

In the US, EMC last week officially opened a new 62,000 square foot manufacturing facility at its headquarters in Hopkinton, Massachusetts.

Liz Claiborne warns of downturn

By Karen Zagor in New York

LIZ CLAIBORNE, the US fashion designer and clothing manufacturer, dismayed shareholders on Friday by predicting a 30 per cent decline in full-year earnings per share for 1993.

The news, which came only a day after the unexpected resignation of the company's vice-chairman Mr Jay Margolis, sent shares in Liz Claiborne tumbling by $6 to $23⅞, their lowest level in several years.

The stock lost $1¾ on Thursday after news of Mr Margolis's departure hit the market.

Mr Margolis is widely respected in the retail industry and many had expected him to take the helm when the current chairman, Mr Jerome Chazen, 65, retires.

Mr Samuel Miller, the company's senior vice-president for finance, blamed the bleak forecast on weaker than expected consumer spending patterns for women's apparel, which have left the company with excess inventories.

"We had anticipated that more favourable business trends and improved results in several of our divisions would enable us to resume growth during the second half of the year and planned our inventory commitments accordingly," he said.

"While we are not happy with the results, at almost 7 per cent of net sales our earnings are among the highest in the industry and our financial position remains strong," Mr Miller added.

For the second quarter, ended June 26, the company posted a 21.3 per cent decline in net earnings to $31.1m on sales which were 7.3 per cent higher at $506.9m.

A year earlier, net income was $39.5m on sales of $472.6m.

Earnings per share fell by 19.1 per cent to 38 cents from 47 cents.

There were fewer shares outstanding in the latest quarter and Mr Miller said that the board had extended the company's share buy-back programme by an additional $50m of common stock, bringing the total authorisation to $350m.

For the first half, Liz Claiborne earned $73.8m, or 90 cents, on sales of $1.04bn against $102.3m, or $1.21, on sales of $1.03bn a year earlier. Earnings in the 1993 period included one-time gains of $1.6m.

MacMillan Bloedel returns to the black

By Robert Gibbens in Montreal

HIGHER-VALUE wood products for North American and overseas construction markets enabled MacMillan Bloedel to report a profitable second quarter this year.

However, the pulp, newsprint and containerboard markets continued to be weak, said Mr Robert Findlay, president. MacMillan would cut costs further and concentrate on producing higher-margin products in the most economic locations, he said.

Second-quarter net profit was C$22.5m (US$17.6m), or 19 cents a share, against a loss of C$7.1m, or 8 cents a share. Sales were C$964m, up nearly 25 per cent.

For the first six months of the year, profit was C$68.8m, or 57 cents a share, against a loss of C$18.1m, or 20 cents a share last time. Half-year sales were C$1.8bn, up 20 per cent.

Mr Findlay said that in the current six months, North American timber prices should remain at current lower levels but export prices should average about first half-levels.

● Canadian Pacific Forest Products, one of North America's biggest newsprint producers, reduced its second-quarter operating loss to C$11m from a C$53m deficit a year earlier. Sales rose by 6 per cent to C$490m.

For the first six months of 1993, losses totalled C$49m against C$120m. Half-year sales were 5 per cent higher at C$941m.

Strong wood products markets were the main factor, but newsprint shipments and prices were higher. Production costs declined and a lower Canadian dollar helped.

However, the pulp, paperboard and white paper markets were weak and two joint ventures reported higher losses. Interest expenses rose because of continuing heavy capital outlays financed through term debt.

Offshore timber products markets were firm in the second quarter, despite a 40 per cent drop in North American prices, but the Japanese market is now being adversely affected by the recession.

CPFP is raising C$130m by spinning off its wood products business into a separate, publicly-held subsidiary.

● Better demand for fine papers and strong timber products markets helped Noranda Forest to report its first quarterly profit in three years for the three months ended June.

Second-quarter net profit was C$4m against a loss of C$21m on sales of C$374m against C$367m. In February, Noranda sold 49 per cent of MacMillan Bloedel for C$997m: this week it announced the disposal of 50 per cent of a western fine paper group for C$82m.

The first-half loss equalled 40 cents a share against 39 cents, on sales of C$761m, adjusted for the MacMillan transaction.

● Primax, a western wood product company that sells mainly to Japan, doubled second-quarter earnings to C$4.4m, or 51 cents a share. It warned that Japanese prices were declining.

French bank 'needs to raise FFr8.5bn'

By John Ridding in Paris

COMPTOIR des Entrepreneurs, the French property bank troubled by exposure to bad loans, will need to raise about FFr8.5bn ($1.45bn) in bonds or through other measures this year, according to Mr François Lemasson, chairman.

Mr Lemasson said that the company was facing an overall financing shortfall of about FFr20bn.

He estimated that about FFr11.5bn could be raised through the sale of assets and the arrangement of syndicated loans with the group's banks.

The company is also planning to sell its Paris headquarters, but has not yet decided on an outright sale or a sale and leaseback operation.

CDE is also in the process of negotiating the terms of an issue of state-guaranteed debt of between FFr1bn and FFr2bn.

Mr Lemasson said that the terms should be finalised within the next few days and that he hoped to obtain a preferential interest rate on the issue.

The difficulties facing CDE reflect an accumulation of bad loans on commercial property and the downturn in the French property market.

Construction industry analysts in Paris estimate that the group has about FFr10bn of risky loans to property companies, on which it has made about FFr2bn of provisions.

● BSN, the big French foods and drinks group best known for its range of yoghurts, is to take a shareholding in Delta, the Greek dairy products company, Reuter reports from Paris.

The two companies have agreed to an accord which calls for BSN initially to take 10 per cent of Delta.

No price was given for the deal. Delta had turnover of Dr51bn or some FFr1.27bn in 1992, and made a net profit of FFr122m, BSN said.

BSN made a net profit last year of FFr3.44bn on sales of FFr70.8bn. It will bring its expertise to Delta, which will ultimately make yoghurts under the Danone brand name.

Initially, the Greek company's yoghurts will keep the Delta name. BSN already has a joint venture in Bulgaria making Danone yoghurts.

Li Ka-shing: has been forced to concede a rare defeat

Miramar Hotel joint bid lapses

By Simon Holberton in Hong Kong

BEIJING-controlled Citic Pacific and Mr Li Ka-shing's Cheung Kong have conceded defeat in their joint HK$9.65bn (US$1.24bn) bid for Miramar Hotel and Investment.

The offer, which lapsed on Friday, received acceptances equal to only 13.7 per cent of the company's shares and 9.2 per cent of its warrants.

The result of the bid for Miramar, which owns property assets on the Kowloon peninsula, was a rare defeat for Mr Li and Mr Larry Yung, head of Citic in Hong Kong.

Henderson Investment, another Hong Kong property group, sealed the fate of the joint bid after it bought a 35 per cent stake in Miramar from its founders and gave little indication that it wanted to deal with Mr Li and Mr Yung.

First Nordic restructuring

KANSALLIS-Osake-Pankki, the Finnish bank, is to restructure the operations of Luxembourg-based First Nordic Bank, Reuter reports from Helsinki. The private banking operations of First Nordic are owned equally by the former STS-Pankki, Norlandsbanken of Norway and Denmark's Sydbank Sonderjylland. They are to be taken over by Sydbank Sonderjylland. KOP acquired STS-Pankki last year.

INTERNATIONAL CAPITAL MARKETS

UK GILTS

Auction prospect prompts pause for breath

SOME of the froth came off the recent rise in UK government bonds last week, as investors reacted negatively to the announcement about the next gilt auction and indications of continuing fiscal weakness.

In recent weeks gilts have enjoyed a purple patch, with long-bond yields dropping to their lowest levels for 20 years.

The market now seems likely to pause for breath while weighing up the large volume of issues that will be needed to finance the high public sector borrowing requirement for 1993-94.

The Bank of England will on July 28 auction an unspecified amount of stock maturing between 1998 and 2001. It will announce tomorrow the details of the bonds and how much will be sold. Market estimates are that some £3.25bn of securities will be on offer.

The announcement on Friday helped the long end of the gilt market, with yields above the 10-year level continuing their generally downward movement.

However, prices of 10-year bonds fell more than ¼ point on Friday, in reaction to news of the auction and that government borrowing in the first three months of the financial year rose by nearly a quarter on the corresponding period of 1992-93.

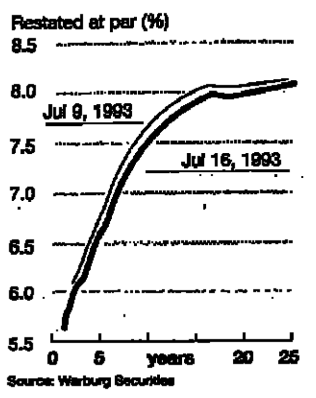
Public borrowing between April and June was £13.2bn, compared with £10.7bn in the same period a year earlier. Many in the gilt market were more interested in these details than in the smaller than expected borrowing figure for June.

This was caused largely by unusually high government receipts, arising from individuals and companies paying their tax bills in June rather than later in the summer.

In spite of the extra cash flowing into the Treasury due to this trend, the PSBR for the month still came out at a high £3.88bn, partly because of a big rise in government spending triggered by high social security outlays due to the recession.

UK gilts yield

Restated at par (%)



Source: Warburg Securities

Even with the setback to fortunes of the 10-year stock on Friday, gilts of this maturity showed an impressive rise on the week. The 8 per cent bond maturing in 2003 was quoted on Friday night at 103¾, nearly ½ point up on the previous Friday. Its yield fell to 7.43 per cent from 7.51 per cent a week earlier.

Longer-dated securities saw a yield fall of a similar scale on the week, while short-dated gilts moved sideways as expectations of an early cut in bank base rates all but petered out.

Gilts maturing in 20 to 25 years have performed particularly well in recent weeks. Since early May, 25-year bonds have seen yields drop from about 8.5 per cent to 7.7 per cent. Over the same period, yields for 10-year securities have come down from 8.2 per cent.

Assuming inflation data over the next few months are as positive as were the figures last week, it is fair to assume that longer-dated gilts will see a further period of steady price increases. The market was particularly heartened by fresh signs that wage pressures are declining, coming from news that average earnings across the economy rose an underlying 3.75 per cent in the year to May, the lowest figure for 26 years.

In a further sign of low inflation, wages per unit of output in manufacturing in the three months to May declined by 3.6 per cent compared with the same period last year. This is the biggest year-on-year fall since the Department of Employment started records in 1970.

Meanwhile, prices of factory-made goods for domestic sale rose by just 4 per cent in the year to June, the same as in the year to May, while the year-on-year rise in the retail prices index dropped in June to 1.2 per cent, the lowest figure for nearly 30 years.

The message from these figures is that manufacturing is leading the recovery. There are few signs of any significant build-up in consumer spending, nor of price pressures at the level of wages and retail goods

Supporting these indications, a chairman of a big food company said last week that the food business was in a "horrible" state. In contrast, manufacturing output in May registered its biggest monthly output increase for four years, with production up 1.8 per cent on the April level.

The release this Wednesday of the figures for last month's retail sales volumes will be watched with interest in the gilt market. Prices are likely to rise should the figures turn out weak.

Peter Marsh

US MONEY AND CREDIT

Long-bond yield heads towards 6.5%

THE US credit market's attention will be focused on Washington this week, where Mr Alan Greenspan, the chairman of the Federal Reserve, will give his semi-annual Humphrey-Hawkins report on monetary policy to Congress against the backdrop of a bond rally which has carried long rates to record lows.

On Friday, for the seventh successive trading session, the yield on the 30-year Treasury issue dropped to the lowest level since the Federal government began issuing these bonds on a regular basis 16 years ago.

The long bond ended the week with a yield of 6.54 per cent, down from 6.64 per cent a week earlier after a raft of statistics showing that fears of inflation in the early summer were greatly exaggerated, and highlighting new signs of sluggish growth.

The biggest push to the market came from the producer and consumer price indices for June, released on Tuesday and Wednesday. The producer price index for finished goods dropped 0.3 per cent, its largest monthly decline since January 1991, while the consumer index was unchanged from May, its best performance since March 1991.

But the rally was reinforced by figures on Friday showing that industrial production dipped two-tenths of a percentage point last month, its first decline since last September, and rumours that a closely watched gauge of consumer confidence was showing a drop in early July.

The economy is certainly growing slowly, but is the outlook so sluggish that the Fed will feel moved to eliminate the bias towards tightening which it put in place last May (and artfully leaked to the market) at the height of the inflation scare?

Mr Greenspan, a master of the verbal stonewall, is unlikely to reveal this to Congress on Tuesday, though he is expected to cut his forecast of economic growth this year to around 2.5 per cent from the 3 per cent to 3.25 per cent rate he suggested in his last Humphrey-Hawkins testimony in February.

At the same time, the Fed's expectations of inflation seem likely to rise to around 3 per cent from the 2.5 per cent to 2.75 per cent rate foreseen in February, which most analysts always considered extremely optimistic.

Still, there seem few inflationary clouds on the horizon. The severe flooding by the Mississippi river will give an upward blip to some agricultural prices, but the past week has also brought some significant signs of contrary trends.

Procter & Gamble, the consumer products giant, announced big detergent price cuts, while General Motors is promising to raise its vehicle prices by an average of only 1.8 per cent in the model year that begins in the autumn.

Most Wall Street analysts expect this background to keep Fed policy on hold for the immediate future, possibly the whole year, yet some wonder whether a touch of monetary easing could be in prospect before the summer is out.

Mr Mitchell Held, of Smith Barney, suggests that if Congress can agree on a meaningful budget deficit reduction programme, and the economic growth and inflation numbers remain "well-behaved", then the Fed will implement a modest easing to avoid a more pervasive slowdown.

However, the Fed is unlikely to consider such action without the Senate and House of Representatives resolving their differences over a deficit package – and expectations of agreement on legislation are already largely factored into bond prices.

Any signs of serious difficulties in Congress over the next few weeks could severely upset the market's upward momentum, which might also be tried by a heavy Treasury refinancing operation in the second week of August. But with those caveats, the odds look good for the long bond yield falling through the psychologically significant level of 6.5 per cent.

Martin Dickson

FRENCH GOVERNMENT BONDS

Issues hold up well in face of weakening franc

THE CURRENCY markets have been casting a shadow over the French bond market, as a series of attacks against the franc have raised the question of whether the French government is prepared to raise interest rates to defend the current parity within the European exchange rate mechanism.

Such considerations were evident in last Thursday's FFr18bn bond issue. The issue of two-year and five-year bonds went reasonably smoothly, although the shorter-term issue reflected anxieties about the currency market.

It saw an average yield of 5.95 per cent, which is higher than expected and compares with 6.16 per cent at the last auction in June. The five-year bond saw an average yield of 6.13 per cent, compared with 6.36 per cent at the June auction.

In general, however, bond analysts said that French issues had held up reasonably well in the face of the weakening franc.

Spreads on French 10-year bonds over German bunds narrowed from 24 points to 14 points over the course of the week, while the short-term end of the market stayed relatively stable.

"We were seeing increased buying interest in French bonds at the end of last week," says Ms Marie Owens Thomsen, international economist at Midland Capital Markets.

She says that with French yields back above German ones at virtually every maturity, there is again the attraction of capital gains on French bonds.

But this attraction may be short-lived if the current turbulence within the ERM forces the French government to resort to an increase in interest rates.

'It might make sense to issue more bonds than they need now. It is likely to be more difficult later'

"If the speculators really try and prise the franc out of the ERM, which is possible, then the French government isn't going to have much choice," said one analyst.

Inflationary prospects in France will be one factor preventing yields slipping below those on German bonds again in the near future.

Consumer price statistics for June, released last week showed stable inflation, the result of falls in the prices of food and oil, but the impact of increased indirect taxes introduced in July – including a rise in petrol taxes – suggests that inflation will pick up in the second half of the year.

One economist at a Paris-based bank said he expected year-on-year inflation to be nearer 2.5 per cent in July, as against 2 per cent in June.

In addition to the two-year and five-year issues, last Thursday also saw an extraordinary repo issue, the result of the successful launch of the "Balladur bond".

Official results, released on Monday, confirmed that the bond had attracted about FFr110bn, almost three times the target level.

Thursday's issue of BTFs was designed to counteract the drain on the money markets as subscribers to the Balladur bond settled their accounts on Friday.

The extraordinary repo issue did not, however, fully compensate for the drain on the market. And combined with sale of about FFr60bn of BTFs earlier in the week, there was a strong tightening of liquidity.

The oversubscription of the Balladur bond – which yields 6 per cent and has a maturity of four years – will not necessarily reduce the French government's future capital raising plans.

"They ought to overfund in this kind of environment," said one economist. "It might make sense to issue more bonds than they need now. It is likely to be more difficult later."

John Ridding

FT/ISMA INTERNATIONAL BOND SERVICE

U.S. DOLLAR STRAIGHTS	Issued	Bid price	Chg on week	Yield
Abb Intl Fin 8⅜ 96	200	103¼		4.79
Abbey Natl Treasury 6½ 03	1000	100⅞	+⅝	6.37
ABN 9¼ 94	200	105⅝	-⅛	4.00
Aetna Life Cas 7¾ 16	200	99⅞	+½	7.76
AlbertaProvince 8⅝ 96	750	110⅝	+¼	5.09
AlbertaProvince 9⅝ 95	600	110¼	+⅛	4.57
American Express 0 00	450	62½	+⅛	6.55
American General 9¼ 95	100	109	+⅛	4.81
American Intl 0 04	750	48⅝	+⅝	6.72
Amoco Canada 7¼ 02	250	107¼	+½	6.19

	Issued	Bid price	Chg on week	Yield
SBC Finance 7¾ 96	200	107⅞	+⅛	4.88
Sears Euro Trust 8¾ 95	750	108¾	+⅛	5.23
Sears o/s Fin Zero 0 98	500	73⅞	+¼	6.40
Sears Roebuck Euro 9¾ 95	500	108¼		4.70
Skandinaviska Ensk 7⅜ 97	500	105	+⅛	5.90
SNCF 9½ 98	150	117	+⅛	5.52
Spain 6½ 99	1500	104	+½	5.71
State Bk NSW 8½ 96	200	109	+⅛	5.14
Sweden 5½ 95	2000	102	-⅛	4.58
Sweden 6½ 03	2000	102⅛	+⅝	6.30
Sweden 9¾ 98	350	115¼	+⅛	5.41

SWISS FRANC STRAIGHTS	Issued	Bid price	Chg on week	Yield
Asian Dev Bank 6 10	100	107½		5.32
Council Europe 4¾ 98	250	101¼	-⅛	4.44
EIB 6¾ 04	300	112		5.30
Elec de France 7¼ 06	100	114½		5.60
Finland 7¼ 99	300	111¾	+⅛	5.00
General Motors 7½ 95	100	103		5.60
Hyundai Motor Fin 8½ 97	100	109		5.98
Iceland 7⅝ 00	100	111½		5.60
Kobe 6⅝ 01	240	109¼		4.95
New Zealand 4⅞ 99	200	100¼	-½	4.82

Closing prices on July 16

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

1/2 hour period ending	Provisional Price for Trading on 18.07.93 Pool purchase price £/MWh	Final Prices for Trading on 21.06.93 Pool purchase price £/MWh	Pool selling price £/MWh
0030	18.18	18.02	18.02
0100	18.18	18.01	18.01
0130	18.18	18.02	18.02
0200	18.18	33.00	33.00

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

1/2 hour period ending	Provisional Price for Trading on 19.07.93 Pool purchase price £/MWh	Final Prices for Trading on 20.06.93 Pool purchase price £/MWh	Pool selling price £/MWh
0030	20.95	20.57	24.69
0100	20.87	33.00	37.81
0130	20.75	33.00	37.62
0200	18.88	33.00	37.63

FLOATING RATE NOTES

Collared deals lead a resurgence of issuance

HARDLY a week goes by without the launch of several new floating rate note (FRN) issues, on the belief that short-term interest rates in the US have hit rock-bottom and are set for an upturn.

Last week was no exception as a batch of European banks (including Bayerische Landesbank, Dresdner Bank, Bayerische Vereinsbank, and Crédit Commercial de France) all launched collared floating rate deals and helped take the week's issuance to more than $1bn.

Bayerische Landesbank and Dresdner Bank, both triple A-rated names, launched deals which were identical save for the amount raised.

CCF, which has a senior debt rating of Aa3, launched an issue with identical terms except for the price, which at 99.5 (against 99.875 for the other two) was seen as adequately reflecting the difference in credit quality.

All four borrowers had the coupon set at six-month Libor less 25 basis points, with a floor of 5 per cent and a cap of 8 per cent.

The previous week's activity in this sector was dominated by a widely-praised new FRN issue for Crédit Lyonnais, which was increased from $1bn to $1.25bn due to strong demand and provided the market with a liquid issue.

The big US houses expect to bring plenty more FRNs (both of the collared variety, where there is a minimum and maximum coupon, and the "plain vanilla" ordinary FRN), given that demand remains strong and that borrowers, generally banks, are obviously keen to take advantage of cheaper terms in the FRN sector as and when they arise.

The renaissance of the FRN sector began last summer as market participants began to wonder whether US short-term interest rates had bottomed out. Several months later, many would argue that dollar short-term rates are "treading water".

Market experts point out that the resurgence has been led by collared products, and it is easy to see why. Last week, six-month dollar Libor was quoted at 3.5 per cent: yet most of the collared FRNs with 12-year maturities that were launched last week had floors of 5 per cent and caps of 8 per cent. Investors have been focusing on the floor because they see an immediate pick-up and can lock into higher returns.

"Investors have had a good deal over the last few months – these have proved very nice transactions for them," said one UK observer of the dollar-denominated FRN market. In some cases, investors expect to benefit as the creditworthiness of borrowers such as US banks improves.

In the meantime, dealers point out, caps have shifted down from about 10 per cent last summer to around 8 per cent at present, reflecting the belief that while interest rates may increase, the rise will not be as fast as previously thought.

"If interest rates go up slowly, collared floaters will be in vogue, whereas if rates go up quickly, 'plain vanilla' FRNs will be in vogue," said one analyst.

US houses report both retail and institutional investor interest in collared FRNs, although the interest in these structured products tends to come from Switzerland and continental European investors.

"Given that the outlook for dollar interest rates is neutral to positive, one would expect to see more of these collared deals: problems will only arise if interest rates rise to close to 8 per cent, when you won't expect to see much of a bid for the paper," warned one FRN specialist.

Sara Webb

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Maturity	Coupon %	Price	Yield %	Launch spread bp	Book runner
US DOLLARS							
Seino Transportation Co.(a)ɸ	480	Jul.1997	1.375	100	-	-	Nomura International
NGK Insulators(b)ɸ	300	Jul.1997	1.375	100	-	-	Nikko Europe
Sumitomo Cement Co.(c)ɸ	200	Jul.1997	1.375	100	-	-	Nomura International
Mitsubishi Oil Co.(d)ɸ	200	Jul.1997	1.375	100	-	-	Nikko Europe
Banco Rio de la Plata(l)	150	Jul.1998	8.5#	100R	8.500	+349 (5¼%-98)	Goldman Sachs Intl.
Banco del Sud	35	Jul.1995	10#	101.79R	9.002	+505 (4½%-95)	West Merchant Bank
Republic of Austria‡	350	Aug.1997	(r)	100R	-	-	CSFB
Shikoku Electric Power Co.	250	Aug.2003	8.25	99.5R	8.319	+49 (6¼%-03)	UBS
Daido Steel Co.(s)ɸ	200	Jul.1997	1.375	100	-	-	Nikko Europe
Unibanco	90	Jul.1996	8.5#	100R	8.500	+420 (4¼%-96)	Swiss Bank Corp.
Hoechst Corp., USA	500	Aug.2000	6	100.2R	5.964	+49 (5½%-00)	CSFB/ Dresdner Bank
Rolls-Royce Capital	300	Jul.2003	7.125	99.48R	7.200	+132 (6¼%-03)	Goldman Sachs Intl.
Bayerische Landesbank‡	200	Aug.2005	(x)	99.875R	-	-	Merrill Lynch Intl.
Dresdner Bank‡	250	Aug.2005	(x)	99.875R	-	-	Kidder Peabody Intl.
HOR Intl. Finance(y)§	110	Aug.2008	4.5	100	-	-	UBS
Banco Nacional, Brazil	90	Jul.1996	8.5#	99.7404R	8.600	+430 (4¼%-96)	Merrill Lynch Intl.
Creditanstalt-Bankverein‡	100	Aug.2005	(x)	99.825R	-	-	Creditanstalt
Essar Gujarat, India(d1)§	60	Aug.1998	(d1)	100	-	-	Merrill Lynch Intl.
Chubu Electric Power Co.	350	Aug.2003	6.25	99.89R	6.265	+46 (6¼%-03)	IBJ International
Bayerische Vereinsbank‡	150	Aug.2005	(x)	100R	-	-	Merrill Lynch Intl.
CCF	100	Aug.2005	(x)	99.5R	-	-	CSFB/ Lehman Brothers
Thai Petrochemical (Cay.)(h1)§	48	Aug.2003	3.5	100	-	-	Robert Fleming & Co.
D-MARKS							
Republic of Turkey(g1)	250	Jul.2003	8.75	102.6	8.352	-	DG Bank
STERLING							
Woolwich Building Society(m)‡	50	Jun.1997	(m)	100	-	-	Samuel Montagu & Co.
Bank for Dutch Municipalities	200	Aug.2003	7.75	99.432R	7.834	+20 (8%-03)	Paribas Capital Markets
Abbey Nat.Treas.Services(z)	350	Apr.2003	8	99.74R	8.029	+40 (8%-03)	BZW/Salomon/Warburg
Royal Bank of Scotland(a1)	200	(a1)	9.5	98.541R	9.657	+137½ (8¾-17)	Goldman Sachs/ UBS
Alliance & Leicester B/S(b1)‡	50	Jun.1997	(b1)	100	-	-	Baring Brothers & Co.
Britannia Bldg. Society(e1)‡	50	Jun.1997	(e1)	(v)	-	-	NatWest Capital Markets
Forte(i1)‡	30	Jul.1996	(i1)	(i1)	-	-	Merrill Lynch Intl.
FRENCH FRANCS							
Crédit Lyonnais(n)	500	Jul.2002	7	97.12R	7.451	+66 (8½%-02)	Crédit Lyonnais
YEN							
Mitsubishi Oil Co.(e)§	30bn	Sep.2000	2#	100	-	-	Yamaichi Intl.(Europe)
Hankyu Dept. Stores(f)§	15bn	Sep.2000	2#	100	-	-	Daiwa Europe
Takara Standard Co.(g)§	10bn	Mar.1998	1.625	100	-	-	Nikko Europe
Republic of Italy(o)	150bn	Jul.2003	5.125	99.474R	5.200	+72 (5½%-02)	Nomura International
Tsumura and Co.(p)§	15bn	Sep.2000	2.125#	100	-	-	Nikko Europe
CANADIAN DOLLARS							
Bayerische Vereinsbank‡	150	Aug.2003	(t)	100R	-	-	Kidder Peabody Intl.
New Zealand	200	Dec.1996	8.25	99.225R	6.531	+45 (6½%-96)	Hambros Bank
Banque Nationale de Paris	125	Aug.1997	6.375	99.56R	6.503	+45 (6½%-96)	Swiss Bank Corp.
Barclays O'seas Capital Corp.	150	Aug.1997	6.375	99.139R	6.627	+60 (6½%-96)	Barclays de Zoete Wedd
GUILDERS							
Royal Ahold	200	Aug.2003	6.75	9.5R	6.821	+38 (6½%-03)	Rabobank Nederland
ITALIAN LIRA							
Benetton Intl. Neths.(h)ɸ	200bn	Jul.1998	4.5	100	-	-	Swiss Bank Corp.
UBS Finance, Neths.	250bn	Aug.2000	9.25	99.5R	9.351	-	Deutsche Bank London
Softe(u)§	565bn	Jul.1998	4.25	88.75R	-	-	Morgan Stanley Intl.
WestLB (Europe)	200bn	Aug.2005	10	101.875	9.728	-	Bca.Nazionale del Lavoro
Bayerische Vereinsbank	200bn	Aug.2000	9.65	99.9R	9.670	-	Banca di Roma
Kingdom of Denmark	150bn	Aug.1995	8.45	100.98	7.901	-	Bca.Commerciale Italiana
ECUS							
European Economic Comm.	50	Jul.2000	6.75	(v)	-	-	Morgan Stanley Intl.
PESETAS							
Council of Europe	15bn	Jul.2003	10.1	101.55	9.849	-	Bco. Negocios Argentaria
World Bank	10bn	Aug.1998	9.75	101.15	9.451	-	Banesto
ESCUDOS							
European Investment Bank	15bn	Aug.2000	10.125	100.7	9.981	-	Banco Finantia
IRISH POUNDS							
European Investment Bank	50	Aug.2003	7.75	99.898R	7.765	+28 (9¼%-03)	Salomon Brothers Intl.
SWISS FRANCS							
Aloka Co.(i)*§	60	Sep.1997	1.375#	100	-	-	Nikko Bank (Switz.)
Commerzbank O'seas F.(j)ɸ	300	Aug.2000	2.5	100	-	-	Swiss Bank Corp.
Algan Co.(k)*ɸ	65	Jul.1997	1.125	100	-	-	Nomura Bank (Switz.)
Nippon Ceramic Co.(q)ɸ*	70	Jul.1997	1.125	100	-	-	Daiwa Secs. Bank(Switz.)
Kingdom of Belgium*	200	Aug.2000	4.5	101.75	4.206	-	Credit Suisse
Snow Brand Milk Prod.(w)*ɸ	200	Aug.1997	1.125	100	-	-	Swiss Bank Corp.
Eurofima(c1)	225	Jun.2003	5	103.75	4.521	-	Credit Suisse
North-East Finance Corp.	150	Aug.2003	4.5	102.5	4.189	-	UBS
Akebono Brake Ind. Co.(f1)*ɸ	150	Aug.1997	1.125	100	-	-	Nomura Bank (Switz.)
Bremer Landesbank	100	Sep.2003	4.75	101.625	4.544	-	Credit Suisse
Electricité de France	100	Sep.1998	4.25	102	3.803	-	Credit Suisse

Final terms and non-callable unless stated. The yield spread (over relevant government bond) at launch is supplied by the lead manager. *Private placement. §Convertible. ɸWith equity warrants. ‡Floating rate note. #Semi-annual coupon. R: fixed re-offer price. a) Denom.: $10,000 + 2 warrants. Exercise price: Y1753. FX: 110.9Y/$. b) Denom.: $10,000 + 2 warrants. Exercise price: Y1138. FX: 110.1Y/$. c) Denom.. $10,000 + 2 warrants. Exercise price: Y626. FX: 110.1Y/$. d) Denom.: $10,000 + 2 warrants. Exercise price: Y1015. FX. 109.0Y/$. e) Conversion price. Y1015. Callable, subject to 130% rule, at 103% from 1/10/94 falling ½% annually. f) Conversion price: Y1240. g) Conversion price: Y1220. Callable, subject to 130% rule, at 102% on 1/4/94 falling ½% annually. h) Denom.: L5m + 63 "knock-out" warrants. Warrant price: L17,983. Conditional put strike: L21,543. Knock-out level: L24,353. Call strike: L28,973. i) Conversion price: Y1702. FX: 72.72Y/SFr. Callable on 30/8/95 at 102% falling by ½% semi-annually. Callable, subject to 150% rule, on 30/8/93 at 102% falling by ¼% semi-annually. j) Denom.: SFr50,000 + 200 warrants. 2 warrants entitle holder to 1 Commerzbank ord. share at DM321.15. k) Denom.: SFr50,000 + 50 warrants. Exercise price: Y2132. FX: 72.41Y/SFr. Callable on 23/7/95 at 102% declining by ½% semi-annually. l) Plus 5 days accrued interest. m) Block trade reopening of £125m launched on 8/6/93. Plus 29 days accrued interest. Coupon pays 3-month Libor + 0.1875%. n) Issue launched on 24/6/93 was increased to FFr3.5bn. o) Short 1st and 2nd coupons to 29/10/93 and 29/7/94 respectively. p) Conversion price: Y2122. Callable, subject to 130% rule, from 1/10/94 at 103% declining ½% annually. q) Fixing: 21/7/93. r) Coupon pays 3-month Libor flat: maximum 6.25%. s) Fixing: 20/7/93. t) Coupon pays 3-month BA's - 0.3%; minimum 6.25%, maximum 10%. u) Exchangeable into existing savings shares of Sip at L2720. Callable from 30/7/96 at accreted value. v) Price, fees undisclosed. w) Fixing: 19/7/93. x) Coupon pays 6-month Libor - 0.25%; minimum 5%, maximum 8%. y) Convertible into Holderbank (the guarantor) bearer shares at SFr847. FX: 1.525SFr/$. z) Fungible with the $850m launched in April. Plus 116 days accrued interest. a1) Undated subordinated issue. From 12/8/2018 at 5 year intervals the coupon will be reset at the higher of the prevailing coupon or the then prevailing 5-year benchmark gilt + 237.5bp. Callable every 5 years from 12/8/2018. b1) Fungible with the £150m launched in May. Coupon pays 3-month Libor + 0.1875%. c1) Fungible with the outstanding SFr625m. Plus 35 days accrued interest. d1) Fixing: week of 26/7/93. Indicated coupon 5.5-6% and share premium 0-5%. Callable after 2 years, subject to 130% rule, at par + accrued. Putable in 3 years at par. e1) Block trade fungible with the £100m launched in May. Additional detachable interest rights (ADIRs) were separately placed. Coupon pays 3-month Libor + 0.15%. f1) Fixing: 22/7/93. Callable on 5/8/95 at 102% declining by ½% semi-annually. g1) Fungible with the DM750m launched in June. Plus 19 days accrued interest. h1) Conversion price: baht 103.81. FX: 25.33 baht/$ (for redemptions after 5 years). Putable in 5 years at 118.6%. Callable after 3 years at a price to yield 6.75% and after 5 year at par. i1) Deal launched on 9/7/93 was increased to £100m. Coupon pays 3-month Libor + 0.85%. Price, fees undisclosed. Note: Yields calculated on ISMA basis.

RISK AND REWARD

How money purchase schemes could be made more attractive

In a classic final salary-defined benefit scheme, the employer underwrites the investment risk. But in a money purchase scheme, where the value of the final benefit depends on how markets behave, the individual bears the risk.

However, if there were a technique to limit the risks the individual has to bear, might money purchase schemes appear more attractive? Most techniques on the market involve the gradual shift out of high-yielding but risky equities into lower risk, lower yielding fixed-interest investments as an individual approaches retirement.

But investment managers, sensing the commercial opportunities to be exploited, have been hard at work looking for ways to offer money purchase schemes with the rewards of equity investment combined with some guarantee of the final level of benefit to be delivered.

S.G. Warburg says it has found a way to address the problem with a new product designed for group money purchase schemes with a minimum of £500,000 to invest. Warburg concedes that its guarantee is incapable of ensuring that individuals will earn a benefit which bears any relationship to salary. After all, even if a lump sum could be guaranteed, individuals will remain dependent on the vagaries of the annuities market for the kind of benefit stream they can purchase with their lump sum.

But what it will do, the firm says, is to offer some guarantees against stock market collapse. The guarantee consists of a promise that individuals will earn at least 90 per cent of the average daily market value of the units in the pool in each year they participate. When they retire, they surrender their units at the full value on that day. The guarantee means that if equity prices tumble one year, individuals do not have to surrender the gains they made in prior years.

Consulting actuaries who help companies choose pension fund investment managers are studying the product closely. Mr Martin Kemp, associate partner with consulting actuaries Bacon and Woodrow, said it bears some similarity to a product launched by several insurance companies in the 1970s but abandoned. "We are looking at it to see if the guarantee offered is worth the price," Mr Kemp said.

Mr Graham Dixon of S.G. Warburg, who designed the product, said the reason it is now workable and affordable has to do with the advent of a sophisticated market in over-the-counter derivatives.

Individuals who select the guarantee fund purchase units in a pool. For every £100 invested, £99 goes into the pool while £1 will go into a special reserve fund. Warburg has left itself an "out" clause by retaining the ability both to raise the 0.9 per cent management fee charged on the pool and to increase the proportion of pension contribution which goes into the reserve.

What makes the product interesting is the way the reserve pool is invested. As pension contributions are made, managers need to calculate the liabilities – the benefits of those set to retire – for the next five years. Roughly 10 per cent of the reserve pool will be used to buy over-the-counter put options on the FTSE which are 10 per cent "out of the money". There is an element of risk because the guarantee the investor receives is against the broader market rather than against the top 100 stocks.

Mr Dixon concedes that the reserve fund could be vulnerable if the entire market fell precipitously but the top 100 stocks outperformed the broad market. However, in premarket research going back to 1919 this situation never arose.

Another 80 per cent will be invested in the equity pool itself, so the returns to the reserve will mimic the sums it is guaranteeing. A further 10 per cent will be used to purchase options to cover the "out of the money" portion of the initial put options.

Mr Dixon calculates that the cost to Warburg of providing the protection is roughly 3 per cent to 4 per cent of the total invested, although he is more vague about the cost to the individual.

The cost will reflect, to some extent, the amount of income effectively surrendered by agreeing to accept only 90 per cent of the average market value of equities in any given year.

Norma Cohen

WORLD STOCK MARKETS

CANADA

TORONTO

4 pm close July 16

Quotations in cents unless marked $

INDICES

NEW YORK

DOW JONES	July 16	July 15	July 14	July 13	1993 HIGH	1993 LOW	Since compilation HIGH	Since compilation LOW
Industrials	3528.29	3550.93	3542.55	3515.44	3554.83 (27/5)	3241.95 (20/1)	3554.83 (27/5/93)	41.22 (2/7/32)
Home Bonds	107.41	107.41	107.59	107.46	107.75 (29/6)	103.49 (11/1)	501.87 (27/4/93)	54.99 (1/10/81)
Transport	1549.92	1541.51	1543.62	1504.54	1683.08 (16/4)	1453.84 (4/1)	1683.08 (16/4/93)	12.32 (8/7/32)
Utilities	245.12	244.86	245.19	244.79	247.68 (16/4)	217.14 (8/1)	247.68 (16/4/93)	10.50 (8/4/32)

DJ Indl Day's High 3571.61 (3573.01) Low 3505.94 (3509.85) (Theoretical♠)
Day's High 3551.77 (3550.93) Low 3525.50 (3526.06) (Actual♠)

STANDARD AND POOR'S

	July 16	July 15	July 14	July 13	1993 HIGH	1993 LOW	Since compilation HIGH	Since compilation LOW
Composite ‡	445.75	449.22	450.08	448.09	456.33 (10/3)	429.05 (8/1)	456.33 (10/3/93)	4.40 (1/6/32)
Industrials♥	506.34	511.35	513.31	510.29	524.99 (10/3)	486.48 (26/4)	524.99 (10/3/93)	3.62 (21/6/32)
Financial	45.39	45.53	45.22	45.52	48.67 (13/4)	39.89 (8/1)	48.67 (13/4/93)	8.64 (1/10/74)
NYSE Composite	247.45	248.95	249.35	248.38	251.36 (10/3)	236.21 (8/1)	251.36 (10/3/93)	4.46 (25/4/42)
Amex Mkt. Value	438.47	437.98	438.67	439.11	440.95 (4/6)	395.84 (8/1)	440.95 (4/6/93)	29.31 (9/12/72)
NASDAQ Composite	699.73	706.69	712.49	708.47	712.49 (14/7)	645.87 (26/4)	712.49 (14/7/93)	54.87 (31/10/72)

	July 9	July 2	Jun 25	year ago (approx.)
Dow Industrial Div. Yield	2.93	2.96	2.95	3.13
	July 14	Jul 7	Jun 30	year ago (approx.)
S & P Industrial div. yield	2.52	2.56	2.51	2.68
S & P Indl. P/E ratio	25.37	24.89	25.42	28.45

NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Closing price	Change on day
RJR Nabisco	5,490,900	5½	- ⅜
Liz Claiborne	4,383,800	23	- 6⅝
Post Prop	4,221,200	27½	----
Merck	3,727,500	33⅛	- ⅝
Beverly Ents	3,651,200	11¾	- 1⅜
Philip Morris	3,081,700	47¾	- 2⅛
US Surgical	3,061,100	25⅞	+ 1⅛
Amer T & T	2,806,800	63¼	- ¼
Wal-Mart Stores	2,799,900	25¼	- ¼
IBM	2,640,700	45⅝	- 1⅞

TRADING ACTIVITY

† Volume (Millions)	July 16	July 15	July 14
New York SE	243.348	247.590	280.580
Amex	15.730	20.430	21.263
NASDAQ	(u)	300.221	280.561
NYSE			
Issues Traded	2,585	2,590	2,595
Rises	898	937	1,210
Falls	1,005	999	779
Unchanged	682	624	606
New Highs	116	116	144
New Lows	30	17	28

CANADA

TORONTO	July 16	July 15	July 14	July 13	1993 HIGH	1993 LOW
Metals & Minerals	2952.17	2887.52	2937.33	2984.08	3020.48 (2/7)	2743.31 (21/1)
Composite	3901.80	3931.30	3941.70	3951.70	3997.72 (2/7)	3275.80 (21/1)
MONTREAL Portfolio	1867.17	1877.28	1890.17	1899.89	1939.10 (25/6)	1720.97 (21/1)

Base values of all indices are 100 except NYSE All Common – 50: Standard and Poor's – 10; and Toronto Composite and Metals – 1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds.‡ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (u) Unavailable ♠ The DJ Indl. index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ♥ Subject to official recalculation.

	July 16	July 15	July 14	July 13	1993 HIGH	1993 LOW
AUSTRALIA						
All Ordinaries (1/1/80)	1799.6	1809.9	1804.5	1804.2	1805.90 (15/7)	1495.00 (13/1)
All Mining (1/1/80)	841.4	846.1	845.2	855.0	858.70 (12/7)	584.70 (13/1)
AUSTRIA						
Credit Aktien (30/12/84)	355.44	354.98	350.87	349.80	357.78 (9/3)	300.28 (14/1)
Traded Index (2/1/91)	877.99	876.86	871.34	869.64	877.99 (16/7)	712.06 (15/1)
BELGIUM						
BEL20 (1/1/91)	1327.45	1331.53	1328.13	1328.54	1331.53 (15/7)	1125.46 (4/1)
DENMARK						
Copenhagen SE (3/1/83)	312.75	311.10	310.74	311.37	314.85 (30/6)	251.90 (4/1)
FINLAND						
HEX General (28/12/90)	1222.9	1236.5	1249.8	1257.2	1257.20 (13/7)	843.10 (22/1)
FRANCE						
CAC General (31/12/81)	540.35	546.06	(c)	545.09	547.37 (30/3)	471.24 (13/1)
CAC 40 (31/12/87)	1974.93	1983.08	(c)	1991.15	2035.91 (30/3)	1772.21 (29/1)
GERMANY						
FAZ Aktien (31/12/58)	698.99	700.43	700.59	694.96	700.59 (14/7)	598.92 (14/1)
Commerzbank (1/12/53)	1994.3	1998.4	1999.4	1982.2	1999.40 (14/7)	1694.30 (14/1)
DAX (30/12/87)	1813.46	1807.66	1811.55	1807.16	1818.17 (12/7)	1516.50 (13/1)
HONG KONG						
Hang Seng Bank (31/7/64)	6925.22	6978.54	6965.50	6956.10	7447.24 (27/5)	5437.80 (4/1)
IRELAND						
ISEQ Overall (4/1/88)	1635.12	1639.76	1635.59	1619.81	1639.76 (15/7)	1191.19 (11/1)
ITALY						
Banca Com. Ital. (1972)	556.41	554.57	553.66	545.73	559.17 (20/5)	446.33 (6/1)
MIB General (4/1/93)	1226.0	1222.0	1220.0	1204.0	1238.00 (20/5)	992.00 (11/1)
JAPAN						
Nikkei (16/5/49)	20331.33	20158.02	20139.11	20180.42	21076.00 (3/6)	16287.45 (25/1)
Tokyo SE (Topix) (4/1/68)	1652.88	1639.68	1631.58	1635.31	1676.13 (3/6)	1250.06 (25/1)
2nd Section (4/1/68)	2252.93	2248.50	2236.82	2229.51	2384.97 (7/6)	1851.72 (28/1)
MALAYSIA						
KLSE Composite (4/4/86)	735.78	714.23	719.30	718.88	748.29 (11/6)	614.28 (13/1)
NETHERLANDS						
CBS TtlRtn.Gen.(End 1983)	352.6	351.3	352.4	353.1	354.30 (12/7)	295.70 (4/1)
CBS All Shr (End 1983)	231.4	230.5	231.2	231.7	232.50 (12/7)	198.60 (13/1)
NORWAY						
Oslo SE (Ind) (2/1/83)	855.03	855.91	858.66	853.87	858.86 (14/7)	669.93 (27/1)
PHILIPPINES						
Manila Comp (2/1/85)	1615.06	1624.07	1616.98	1624.68	1654.39 (5/5)	1270.88 (4/1)
SINGAPORE						
SES All-Singapore (2/4/75)	444.51	442.03	444.22	445.53	488.48 (31/5)	394.10 (13/1)
SOUTH AFRICA						
JSE Gold (28/9/78)	1901.0♥	1907.0	1984.0	1950.0	2092.00 (7/7)	775.00 (5/1)
JSE Industrial (28/9/78)	4633.0♥	4631.0	4637.0	4636.0	4719.00 (6/7)	4333.00 (19/4)
SOUTH KOREA**						
Korea Comp Ex. (4/1/80)	759.17	762.40	762.96	762.94	777.25 (9/6)	605.93 (6/3)
SPAIN						
Madrid SE (30/12/85)	258.11	259.31	260.04	259.50	264.92 (22/6)	215.60 (4/1)
SWEDEN						
Affarsvarlden Gen. (1/2/37)	1148.0	1144.9	1138.8	1134.6	1148.00 (16/7)	879.10 (28/1)
SWITZERLAND						
Swiss Bank Ind. (31/12/58)	1033.4	1034.7	1041.7	1046.6	1046.60 (13/7)	904.80 (11/1)
SBC General (1/4/87)	820.1	821.6	824.9	827.9	827.90 (13/7)	678.70 (11/1)
TAIWAN**						
Weighted Price (30/6/66)	3914.04	3969.17	4022.47	4013.18	5013.28 (7/4)	3088.43 (9/1)
THAILAND						
Bangkok SET (30/4/75)	885.38	890.05	892.98	900.66	998.44 (25/1)	818.84 (1/6)
WORLD						
M.S. Capital Intl.(1/1/70) $	567.3*	568.7	568.0	567.0	576.30 (3/6)	488.60 (13/1)
Euro Top-100 (26/6/90)	1033.80	1034.07	1036.34	1034.35	1036.34 (14/7)	862.73 (13/1)

**Saturday July 10: Taiwan Weighted Price: 4079.59. Korea Comp Ex. 769.87.
♥ Subject to official recalculation.
*Calculated at 15.00 GMT

Base values of all Indices are 100 except Austria Traded, BEL20, HEX Gen., MIB Gen., CAC40, Euro Top-100, ISEQ Overall and DAX - 1,000. JSE Gold - 255.7. JSE 25 Industrials - 264.3 and Australia All Ordinary and Mining - 500. (c) Closed. (u) Unavailable

TOKYO - Most Active Stocks

Friday, July 16, 1993

	Stocks Traded	Closing Prices	Change on day
Nikkatsu	7.8m	23	
Gajoen Kanko	7.6m	170	+27
NEC Corp	6.9m	1,020	+48
Kawasaki Steel	6.2m	348	+3
Kaken Pharm	5.6m	1,720	+50
Sumitomo Mtl Min	4.4m	1,070	
Kyocera Corp	3.8m	6,300	+70
Hitachi	3.8m	884	+15
Nippon Kayaku	3.5m	877	+11
Nippon Steel	3.4m	373	+2

MONTREAL

4 pm close July 16

Total Sales 20,265,257 shares

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices: dial (0891 or 0336) 430000, enter 4 and key in the five digit code listed below. Calls are charged at 36p/minute cheap rate and 48p/minute at all other times. International access available by subscription only. For more details call the FT Cityline Help Desk on (071) 873 4378.

AUTHORISED UNIT TRUSTS

MGM Unit Managers Ltd (1000)F
MGM House, Heene Rd, Worthing
Dealing: 0277 261010 Enq: 0903 204631

	Init Chrge	Bid Price	Offer Price	Yield Gr's	City-Line
European Growth ♣	5	65.51	65.86	70.06	0.07
High Income	5	265.3	268.8	285.7	4.61
(Accum Units)	5	460.2	466.0	495.7	4.61
Intl Bond	5	67.35	67.35	70.81	5.68
Intl Equity Growth ♣	5	62.35	62.46	66.44	0.86
North American Growth	5	92.91	93.24	99.19	0.74
Special Sits Growth	5	18.88	19.20	20.42	1.93
UK Growth	5	325.1	327.7	348.6	2.72
(Accum Units)	5	409.6	412.3	439.2	2.72

MW Investment Managers Ltd (0859)F
48 Court St, Haddington, E. Lothian 062-082 5867

MW Joint Investors	0	1172.6	1172.6	1205.2	3.7

Maldon Unit Trust Managers Ltd (1400)F
c/o Baillie Gifford 1 Rutland Ct EH3 8EY 031-222 4242

Maldon General	0	128.0	128.0	132.6	4.40

Guide to pricing of Authorised Unit Trusts

Compiled with the assistance of Lautro §§

INITIAL CHARGE: Charge made on sale of units. Used to defray marketing and administrative costs, including commission paid to intermediaries. This charge is included in the price of units.

OFFER PRICE: Also called issue price. The price at which units are bought by investors.

BID PRICE: Also called redemption price. The price at which units are sold back by investors.

CANCELLATION PRICE: The minimum redemption price. The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, most unit trust managers quote a much narrower spread. As a result, the bid price is often set above the cancellation price. However, the bid price might be moved to the cancellation price by the managers at any time, usually in circumstances in which there is a large excess of sellers of units over buyers.

TIME: The time shown alongside the fund manager's name is the time of the unit trust's valuation point unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: (♥) - 0001 to 1100 hours; (♣) - 1101 to 1400 hours; (♦) - 1401 to 1700 hours; (♠) - 1701 to midnight. Daily dealing prices are set on the basis of the valuation point; a short period of time may elapse before prices become available.

HISTORIC PRICING: The letter H denotes that the managers will normally deal on the price set on the most recent valuation. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis. The managers must deal at a forward price on request, and may move to forward pricing at any time.

FORWARD PRICING: The letter F denotes that the managers deal at the price to be set on the next valuation. Investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper are the most recent provided by the managers.

SCHEME PARTICULARS AND REPORTS: The most recent report and scheme particulars can be obtained free of charge from fund managers.

Other explanatory notes are contained in the last column of the FT Managed Funds Service.

§§ Life Assurance and Unit Trust Regulatory Organisation, Centre Point, 103 New Oxford Street, London WC1A 1QH Tel: 071-379-0444.

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	Init. Chrge	Canc Price	Bid Price	Offer Price	Yield Gr's	City-Line
Singer & Friedlander UT Mgmt Ltd (1000)F						
PO Box 224, Beckenham, BR3 4TF						081-663 3003
European Trust	6	52.43	52.59	55.94	1.11	4002
Far Eastern Tst	6	82.22	83.25	87.27	0.27	4361
Smaller Cos	5	166.7	160.6	170.9	1.52	4441
Smith & Williamson Unit Tst Mgrs (1600)F						
1 Riding House St, London W1A3AS						071-637 5377
S & W American	5	269.3	269.8	285.6	0.72	4390
S & W Capital	5	118.6	118.6	127.2	1.43	4041
S & W Cash	0	101.40	101.40	101.40	5.34	4780
S & W European	5	112.8	112.8	118.3	1.07	4023
S & W Far Eastern	6	149.9	150.6	159.4	0.00	4674
S & W Growth	5	124.8	126.7	134.0	1.25	4181
S & W Income	5	116.2	116.4	123.1	4.50	4182
S & W Magnum	5	123.6	123.6	132.7	1.55	4780
S & W Smlr Secs	5	320.1	326.8	345.8	0.44	4130
S & W Thoroughbred	6	145.1	145.1	155.9	1.46	4233
Sovereign Unit Tst Mngrs Ltd (1000)F						
12 Christchurch Rd, Bournemouth						0202 298422
Cash	1	49.86	49.86	60.36	5.3	4346
Chrtld Prfrence	5½	56.79	57.14	60.94	7.7	4375
Ethical	5½	52.37	53.27	56.66	3.8	4346
European Growth	5½	59.17	59.60	63.46	2.8	4171
Income	5½	52.47	52.94	56.48	5.7	4134
Intl Growth	5½	82.05	82.56	88.08	2.9	4135
Managed	5½	69.92	70.65	75.35	3.8	4136
UK Growth	5½	56.17	56.76	60.56	4.4	4137
Standard Life Tst Mgmt Ltd (0730)H						
3 George St, Edinburgh EH2 2XZ						0800 393777
Managed Acc	5¼	43.99	43.99	46.74	1.66	4139
UK Equity Gth Acc	5¼	59.94	60.00	63.76	1.53	4138
UK Eq High Inc Inc	5¼	35.60	35.60	37.83	3.83	4140
UK Eq High Inc Acc	5¼	42.28	42.28	44.93	3.83	4080
UK Equity Gen Acc	5¼	53.29	54.27	57.67	2.28	4145
UK Equity Gen Inc	5¼	40.36	41.10	43.67	2.28	4142
UK Larger Cos Acc	F 7½	365.8	370.6	402.2	3.81	4143
UK Larger Cos Inc	F 7½	280.9	284.7	308.9	3.81	4144

INSURANCES

OTHER UK UNIT TRUSTS

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Providence Capitol Life Assc. Co Ltd - Contd.

Alpha Pension Funds	Bid Price	Offer Price	Yield Gross	City-Line
UK Alpha	228.1		-	47229
US Alpha	123.9		-	47230
Gilt Alpha	88.1		-	47231
Gold Alpha	88.4		-	47232
Japan Alpha	46.8		-	47233
US Dollar Alpha	77.1		-	47234
Yen Alpha	82.6		-	47235
DM Alpha	98.8		-	47236
European Alpha	89.0		-	47237

Provident Life Assoc Ltd
Provident Way, Basingstoke RG21 2SZ 0256 470707

Gold Range (Pensions)	Bid Price	Offer Price	Yield Gross	City-Line
Managed Fund	167.5		-	46412

Provident Mutual Life Assc. Assn.
8 Hills Way Stevenage Herts SG1 2ST 0438 732000

	Bid Price	Offer Price	Yield Gross	City-Line
Managed Ord	418.0	440.0	-	43484
Managed Init	298.2	371.8	-	43485
Equity Ord	620.9	653.6	-	43486
Equity Init	438.0	461.1	-	43487
Index Linked Gilt Ord	197.2	207.6	-	43488
Index Linked Gilt Init	145.3	152.9	-	43489
Overseas Equity Ord	343.4	361.5	-	43490
Overseas Equity Init	242.2	254.9	-	43491
Property Ord	229.2	241.3	-	43492
Property Init	161.7	170.2	-	43493
Fixed Interest Ord	268.8	282.7	-	43494
Fixed Interest Init	189.5	199.5	-	43495
Deposit Ord	197.2	207.6	-	43496
Deposit Init	139.1	146.4	-	43497
Pension Funds				
Managed Ord	554.3	583.5	-	43498
Managed Init	391.1	411.7	-	43499
Equity Ord	846.4	889.9	-	43500
[illegible]				

Prudential Assurance Co

Prudential Corporate Pension Funds

Prudential Individual Life Funds

Prudential Individual Pension Funds

Reliance Mutual

J Rothschild Assurance PLC

Royal Heritage Life Assurance Ltd

Royal Life Insurance Ltd

Royal Liver Assurance

Save & Prosper Group Ltd

Scottish Amicable
150 St Vincent St, Glasgow 041-248 2323

Life Funds (First Series)	Bid Price	Offer Price	Yield Gross	City-Line
Managed	408.8	430.4	-	43861
Equity	506.7	533.4	-	43855
Property	243.2	256.0	-	43856
International	409.7	421.3	-	43857
Japanese	118.6	124.7	-	46267
Asia Pacific	141.2	148.7	-	46254
European	110.3	116.0	-	46280
American	148.1	155.9	-	46255
Fixed Interest	349.1	367.5	-	43858
Index-Linked Gilt	189.6	199.6	-	43860
Cash	220.7	232.4	-	43859
Life Funds (Second Series)				
Managed	114.8	120.7	-	47103
Equity	109.7	115.5	-	47067
Property	102.8	108.3	-	47107
International	127.5	134.3	-	47101
Japanese	119.8	125.9	-	47102
Asia Pacific	139.4	146.8	-	47056
European	110.0	115.8	-	47076
American	145.7	153.4	-	47080
Fixed Interest	132.2	139.2	-	47091
Index-Linked Gilt	122.0	128.5	-	47100
Cash	110.2	116.1	-	47061
Pension Funds				
Building Society	174.2	183.4	-	43874
Managed (Init)	236.3	249.4	-	43872
Managed (Acc)	470.7	495.5	-	43873
Equity (Init)	263.0	276.9	-	43882
Equity (Acc)	523.9	551.5	-	43883
Property (Init)	150.5	158.5	-	43868
Property (Acc)	299.9	315.7	-	43869
International (Init)	243.1	256.9	-	43865
International (Acc)	484.2	509.7	-	43867
[illegible]				

Scottish Equitable Life Assce. Soc.

Scottish Life Investments

Scottish Mutual Assurance plc

Scottish Provident Institution

Scottish Widows' Group

Skandia Life Assurance Co Ltd (z)

Standard Life Assurance Company

Sun Alliance Group

Sun Alliance Group - Contd.

	Bid Price	Offer Price	Yield Gross	City-Line
Worldwide Bond	168.5	177.4	-	44224
From Special Managed	160.6	169.1	-	44225
Frank America Smllr Cos.	174.2	183.4	-	44227
Fram America Turnaround	169.5	178.5	-	44230
Fram Capital Tst	149.5	157.4	-	44228
Fram Intl Growth	169.4	178.4	-	44240
Fram Japan & General	243.8	256.7	-	44229
Fram Recovery Tst	229.8	242.0	-	44231
GT Special Mngd.	151.0	158.9	-	44240
GT Amer Spec Sits	170.7	180.0	-	44236
GT Capital	182.3	191.9	-	44238
GT European	133.9	141.0	-	44239
GT Far East & Gen	175.3	184.8	-	44237
GT International	152.8	161.0	-	44233
GT Japan & General	140.9	148.4	-	44236
GT US & General	209.4	220.5	-	44234
Quaestor Intl	102.3	107.7	-	-
Broker Funds				
Barnwell	100.8	106.2	-	-
Barnwell Conservative	95.70	100.8	-	-
EBS Deposit	110.2	116.0	-	-
EBS Equity	117.7	123.9	-	-
EBS Managed	408.2	429.7	-	-
LAS Pens	250.3	263.5	-	-
Index Exempt Portfolio	95.80	100.9	-	-
Radcliffe Trustee Pens	147.7	155.5	-	-
Phoenix Life Funds				
Wealth Assured	572.8	603.0	-	43248
Ebor Phoenix Eqty	422.2	450.2	-	43249
Phoenix Pension Funds				
Special Mnged	250.0	263.1	-	43256
Building Society	235.6	248.0	-	43255
Equity	277.5	292.1	-	43250
Fund Interest	260.4	274.1	-	[illegible]
[illegible]				

Sun Life Unit Assurance Ltd

Swiss Life (UK) PLC

TSB Life Ltd

Target Life Assurance Co Ltd

Teachers' Assurance Company Ltd

Templeton Life Assurance Limited

Tunbridge Wells Equitable

Wesleyan Assurance Society

Windsor Life Assur Co Ltd

Zurich Life Assurance Co Ltd

OFFSHORE INSURANCES

AXA Equity & Law Intl Life Assce Co
Victory Hse, Prospect Hill, Douglas, IoM 0624 677877

	Bid Price	Offer Price	Yield Gross	City-Line
European Equity	98.1	105.4	-	44915
Far Eastern Equity	$1.580	1.607	-	44916
North American Equity	$1.060	1.146	-	44917
UK Equity	115.4	124.0	-	44918
UK Gilt & Fixed Int	97.9	105.2	-	44919
Dollar Deposit	$0.677	0.727	-	44920
Sterling Deposit	92.0	98.8	-	44921
Managed Currency	83.9	90.2	-	44922
International Managed	108.9	117.0	-	44923
Inv Mkt Intl Global Pen £	52.4	56.1	-	45083
Inv Mkt Intl Global Pen $	$0.781	0.832	-	45087

Albany International Assurance Ltd
St Mary's, Castletown, Isle of Man 0624 823202

Century Life International Ltd

Eagle Star Intl Life

Equitable Life (International)

Friends Provident

Hansard International Ltd

Isle of Man Assurance Ltd

Laurentian International Group

Lincoln National Life

Manulife International

Pearl Life

Providence Capitol International Ltd

Royal Life Intl. Ltd

Royal Skandia Life Assurance Ltd - Contd.

	Bid Price	Offer Price	Yield Gross	City-Line
$ Balanced Fidelity	$1.221	1.312	-	43740
$ Balanced INVESCO MIM	$1.196	1.286	-	47730
$ Aggressive Perpetual	$1.184	1.273	-	47731
$ Deposit	$1.134	1.219	-	47402
[illegible]				

Scottish Provident Intl Life Assurance Ltd
Lord Street, Douglas, Isle of Man

Sun Alliance International Life
PO Box 77, New St, St Peter Port, Gsy

Target International Group

MANAGEMENT SERVICES

Capital Trust Financial Management

Chase de Vere PLC

ECU Terminvest PLC

Fairmount Financial Services Ltd

Foster & Braithwaite Ltd

Hargreave Lansdown Financial Services (Pty) Ltd

IFS Capital Management PLC

Johnson Fry Asset Managers Plc

Knight Williams & Company Ltd

Macartney & Dowie Invest Mngt Plc

Northern Bloge & Partners

Roxborough Financial Management Ltd

Charles Stanley & Co Ltd

United Financial Corporation Ltd

J. D. Ward Financial Services Ltd

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

Fidelity Money Funds

Lloyd George Management

Newport Investment Management

Orion Fund Limited

CANADA (SIB RECOGNISED)

GBC Asset Management

GUERNSEY (SIB RECOGNISED)

AIB Grofund Inv Managers (Guernsey) Ltd

Adams & Neville Fd Mmgt (Guernsey) Ltd

Baring Intl Fd Managers (Guernsey) Ltd

Butterfield Fund Mngrs (Guernsey) Ltd

Equitable International Fund Managers Ltd
PO Box 255, St Peter Port Guernsey CI 0481 710651

	Init Charge	Canc Price	Bid Price	Offer Price	Yield Gr's	City-Line
Sterling High Yld	1	[illegible]	0.999	1.008	4.87	[illegible]

Guinness Flight Fd Mngrs (Guernsey) Ltd
PO Box 250, St Peter Port, Guernsey 0481 712176

Guinness Flight International Accum Fund (Daily)

Hambros Fd Mgrs (CI) Ltd

Kleinwort Benson Intl Fd Mngrs Ltd

Lazard Fund Managers (Ch Is) Ltd

Lion World Fixed Income Fund

Lloyds Intl Money Market Fund Ltd

M & G (Guernsey) Ltd

Prudential Fund Managers (Guernsey) Ltd

Rothschild Asset Management (CI) Ltd

Royal Bank of Canada Offshore Fd Mgrs Ltd

Sarasin Funds Mngmt (Guernsey) Ltd

Schroder Investment Mngmt (Guernsey) Ltd

GUERNSEY (REGULATED)(**)

ANZ Mngmt Co (Guernsey) Ltd

Arab Bank Fund Managers (Guernsey) Ltd

Bachmann Global Investment Fund Ltd

CIBC Fund Managers (Guernsey) Ltd

Dartmouth Management (Guernsey) Ltd

Guernsey Capital Management Limited

Hambros Fund Managers (CI) Ltd

Henderson Admin. (Guernsey)

Investment Portfolio Svs (CI) Ltd

Kleinwort Benson Intl Fd Mngrs Ltd

Lazard Fund Managers (CI) Ltd

Merrill Lynch Guernsey

	Bid Price	Offer Price	Yield Gross	City-Line
Bangkok NAV Jul 14	$92.73		-	42708
Euro Spain	$-		-	-
Iberia Portfolio NAV	$6.31		-	46690
Latin Am Cap Prins A Jun 30	$11.53		-	-
Latin Am Cap Prins B Jan 31	$3.60		-	-

Nikko Capital Mngt (Europe) Ltd

	Bid Price	Offer Price	Yield Gross	City-Line
New Generation Fd	$22.67	22.92	-	46660
Japan Index Fund	Y2583	2611	-	45559
Japan Index Alpha	Y7739	7858	-	46956
Jpn Sector Rotation Fd	Y5684	5768	-	47334
Jpn Cap Grth CB Fd	Y11754	11755	-	45822
Jpn Italy Reversal Fd	Y10927	11035	-	47753

Quilter International Management Ltd

Rothschild Asset Mngmt (CI) Ltd

Saudi International (Guernsey) Ltd

Schroder Investment Mngmt (Guernsey) Ltd

U.S. Treasury Securities Fund Ltd

Rudolf Wolff Capital Management Ltd

Yamaichi Capital Mngmt (Guernsey) Ltd

IRELAND (SIB RECOGNISED)

Coutts & Co Fund Managers Limited

Federated International Funds Plc

GAM Fund Management Ltd

GT Asset Management (Ireland) Ltd

Morgan Grenfell Investment Funds Ltd

Prolific International Fund Plc

Singer & Friedlander Inv Funds Ltd

Swiss Life Investment Fund

IRELAND (REGULATED)(**)

BT Fund Managers (Ireland) Ltd

Bank of Ireland Unit Managers Ltd

Baring International Fd Mngrs (Ireland) Ltd

Baring Mutual Fund Mngrs (Ireland) Ltd

Chemical Fund Administrators Ltd

Dresdner International Management Services Ltd

GT Asset Management (Ireland) Ltd

Genesis Portfolio Managers Limited

Hambros Fund Managers (Ireland) Ltd

Kleinwort Benson Capital Mngt (Ireland) Ltd

Morgan Grenfell Fund Mngrs (Ireland) Ltd

Morgan Grenfell Prolands Plc

Paine Webber Offshore Funds Plc (u)

	Bid Price	Offer Price	Yield Gross	City-Line
High Income Class A	$10.26	10.69	-	45914
High Income Class D	$10.26	10.26	-	45915

J. Rothschild International Assce plc

	Bid Price	Offer Price	Yield Gross	City-Line
Aggressive US$	$10.856	11.405	-	45917
Balance US$	$10.701	11.265	-	45918
Cautious US$	$10.311	10.854	-	45919
Bond US$	$10.452	10.992	-	45920
N. A. Equity	$10.028	10.554	-	45924
Japan	$12.581	13.223	-	45927
Far Eastern	$11.143	11.730	-	45932
Deposit	$10.065	10.599	-	45972
Managed Currency	$10.675	11.237	-	45973
Aggressive DM	DM11.198	11.788	-	45974
Balance DM	DM11.006	11.585	-	45975
Cautious DM	DM10.637	11.191	-	45976
[illegible]				

Sanwa International (Ireland) Plc

Ulster Bank Investment Services

Yellow Sea Investment Company PLC

ISLE OF MAN (SIB RECOGNISED)

AXA Equity & Law Intl Fund Mngrs

Allied Dunbar Intl Fund Mngrs (1900)F

Asset Global Funds Ltd (1200)

CMI Fund Managers (IoM) Ltd

Gartmore Fund Managers (IoM) Ltd

Leopold Joseph Fund Mngrs (IoM) Ltd

Mercury Fund Managers (IoM) Ltd

Sun Life Management (IoM) Ltd

Unibank Scandinavian Fund Ltd

ISLE OF MAN (REGULATED)(**)

ATC Fund Management (SG) Ltd

AXA Equity & Law Intl Fund Mgrs

Appleton Financial Advisors Ltd

CMI Fund Mngrs (IOM)

City Financial Admin (IoM) Ltd

Duncan Lawrie Inv. Mgt. Ltd

Gartmore Fund Managers (IoM) Ltd

John Govett Management (IoM) Ltd

Hill Managers (IoM) Ltd

R & H Fund Managers Ltd

JERSEY (SIB RECOGNISED)

AIB Fund Managers (CI) Ltd

Barclays International Funds

Capital House Fund Mgrs (CI) Ltd

John Govett (Channel Islands) Ltd (1000)F

Hill Samuel Fund Mgrs (Jsy) Ltd (1000)F

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices: dial (0891 or 0336) 430000, enter 4 and key in the five digit code listed below. Calls are charged at 36p/minute cheap rate and 48p/minute at all other times. International access available by subscription only. For more details call the FT Cityline Help Desk on (071) 873 4378.

	Init Chrge	Canc Price	Bid Price	Offer Price	Yield Gr's	City-Line
Lloyds Bank (CI) U/T Mgrs.						
PO Box 195, St Helier, Jersey 0534 284242						
Lloyds Tst. Gilt	3½	210.380	10.410xd	10.780	7.42	4695
Dealing daily						
Midland Bank Fund Managers (Jersey) Ltd						
PO Box 26, St Helier, Jersey 0534 606000						
Intl Circuit Portfolio	6	✓1.2453	1.2453	1.3264	0.00	4627
Gilt	3	✓1.0078	1.0078xd	1.0392	7.70	4644
Prudential Fund Managers (Jersey) Ltd						
PO Box 103, St Helier, Jersey 0534 70009						
Prudential Currency Fd (Formerly Vanbrugh Currency Fd)						
Income (A & B)	5	213.1	213.1	223.7	3.44	4644
Growth (C & D)	5	320.9	320.9	337.0	–	4645
Royal Trust Jsy Fd Mngt Ltd (1400)F						
PO Box 428, St Helier, Jersey 0534 27441						
Govt Secs Fd	4	55.96	55.96	58.34	7.55	4674
Standard Bank Fund Mgmt (Jersey) Ltd						
PO Box 583, St Helier, Jersey CI 0534 67557						
International Bond	5	$–	16.00	16.82	4.53	4478
Sterling Bond	3	£–	9.980	10.32	6.40	4476
Sterling Cap		£–	42.67	42.69	–	4477
TSB Trust Funds (CI)						
PO Box 538, St Helier, Jersey 0534 503002						
TSB Offshore Investment Fund Ltd						
Stg Deposit Class	3	101.44	101.44xd	104.48	5.00	4587
Gilt & Fixed Interest	3	119.58	119.58xd	123.95	7.47	4348
Blue Chip & Gilt Edged	5	59.88	59.88	63.03	3.82	4838
International Bond	5	138.67	138.67	145.79	4.89	4347
UK Equity	5	253.06	261.40	275.16	1.28	4372
International Equity	5	182.24	184.86	194.68	0.35	4369
Far Eastern	5	174.91	178.14	187.52	0.00	4381
European	5	128.21	128.99	135.78	0.00	4369
Pan American	5	373.99	377.86	397.78	0.00	4370
TSB Gilt Fund Ltd						
Quarterly Share	3	107.81	107.81xd	111.33	7.54	4633
Monthly Share	3	107.05	107.05xd	110.55	7.80	4634

JERSEY (REGULATED)(**)

	Init Chrge	Canc Price	Bid Price	Offer Price	Yield Gr's
Banque Scandinave a Luxembourg SA - Contd.					
Scandifond Bond Fund					
Bond Int. Acc	1	$–	12.3	12.48	6.84
Europe Bond Acc	1	$–	1.51	1.54	7.15
Bond DEM Acc	1	DM–	1.24	1.26	6.64
Bond USD Acc	1	$–	1.43	1.45	5.79
Bond Swedish Acc	1	SKr–	16.59	16.77	16.19
Scandifond International Sicav					
Intl Emerging Markets	5	$–	1.07	1.13	–
Barclays Diversified Portfolio					
14 rue Aldringen L-1118 352 4799					
IPB Deutschmark Reserve		DM–	31.58	–	–
IPB Sterling Reserve		£–	10.40	–	–
IPB Swiss Franc Reserve		SFr–	30.84	–	–
IPB US Dollar Reserve		$–	20.38	–	–
IPB European Bond		Ecu–	17.87	–	–
IPB North American Bond		$–	21.43	–	–
IPB Espana		Pta–	2802	–	–
IPB Europa		Ecu–	18.61	–	–
IPB Japan		$–	28.58	–	–
IPB Pacific Rim		$–	22.88	–	–
IPB United Kingdom		£–	11.01	–	–
IPB United States		$–	21.44	–	–
Barclays Inv Funds (Luxembourg)					
41 Avenue de la Gare L-1611 010 352 40					
Equity Funds					
European Equity	5¼	£–	0.938	0.988	0.3
Intl Equity	5¼	£–	1.488	1.562	0.5
North Am Eqty	5¼	$–	34.00	36.28	0.3
Pacific Eq	4¾	$–	6.323	6.724	0.3
UK Equity	5¼	£–	1.095	1.165	2.8
Bond Fund					
International Bond	3½	$–	100.0	104.62	5.3
CMI Asset Management (Luxembourg) SA					
203 route d'Arlon, L-1150 Lux 010 352 45					
CMI Managed Portfolio Investment Company (a)					
Safeguard Portfolio F		£–	1.273	1.388	–
Growth Portfolio F		£–	1.148	1.223	–
Enterprise Portfolio F		£–	1.103	1.175	–
CMI Global Network Fund (a)					
Australasian Equity		A$–	13.388		–

LUXEMBOURG (SIB RECOGNISED)

LUXEMBOURG (REGULATED)(**)

SWITZERLAND (SIB RECOGNISED)

OTHER OFFSHORE FUNDS

MANAGED FUNDS NOTES

CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGE AND MONEY MARKETS

M3 in focus

IT IS likely to be another tense week in European currency markets as speculators look for signs of weakness in the ERM's defences, *writes Stephanie Flanders.*

Their first opportunity may be the June figures for German money growth, due out early this week, and the provisional figures for the German cost of living index, which may be released on Friday, or early next week. Both will have a bearing on whether the Bundesbank thinks it can cut official rates at its July 29 council meeting, something which some dealers believe the ERM needs if it is to survive.

Dealers will be trying to gauge the Bundesbank's commitment to support the French franc and the Danish krone. Some market participants think that the Danish government could be forced to devalue, even if the franc-D-Mark parity survives.

Denmark's determination to resist speculators could cause problems for its economy. The country is in recession while its year-on-year inflation rate has fallen to 0.9 per cent. However, the Danish National Bank is raising its key deposit and discount rates to 9.25 per cent from 7.25 per cent to give the currency extra support.

Another possible victim of speculative pressure is the Belgian franc, which could join the Spanish peseta and Portuguese escudo on the ERM's 'speculative fringe'.

Meanwhile, events in Europe could distract attention from Japan, where yesterday's election result will have done little to banish the political instability which has been casting a shadow over the yen.

Once again, the beneficiaries of Japanese and European uncertainty are likely to be the Swiss franc, the dollar, and sterling. Neither Britain nor the US has data out this week which is likely to change the muted bullishness of recent weeks, although the chairman of the Federal Reserve's annual testimony before Congress tomorrow and Thursday will doubtless trigger theorising about future US interest rate movements.

£ IN NEW YORK

Jul 16	Close	Previous Close
£ Spot	1.4860-1.4870	1.4900 1.4910
1 month	0.37-0.36pm	0.37 0.36pm
3 months	1.04-1.02pm	1.03 1.01pm
12 months	3.13-3.03pm	3.10 3.03pm

Forward premiums and discounts apply to the US dollar

STERLING INDEX

	Jul 16	Previous
8.30 am	81.1	81.7
9.00 am	81.1	81.7
10.00 am	80.8	81.6
11.00 am	80.9	81.6
Noon	81.0	81.6
1.00 pm	80.9	81.5
2.00 pm	81.0	81.4
3.00 pm	80.9	81.5
4.00 pm	80.8	81.3

CURRENCY MOVEMENTS

Jul 16	Bank of England Index	Morgan ** Guaranty Changes %
Sterling	80.8	-28.34
U.S Dollar	68.4	-11.50
Canadian Dollar	94.6	-7.85
Austrian Schilling	113.1	+15.21
Belgian Franc	113.4	+0.42
Danish Krone	114.8	+9.24
D-Mark	122.0	+29.72
Swiss Franc	112.4	+21.62
Dutch Guilder	117.3	+19.45
French Franc	106.6	-8.92
Lira	80.8	-34.11
Yen	180.9	+121.14
Peseta	87.8	-32.65

Morgan Guaranty changes: average 1980-1982=100. Bank of England (Base Average 1985=100) **Rates are for Jul 15

OTHER CURRENCIES

Jul 16	£	$
Argentina	1.4755 - 1.4770	0.9990 - 1.0000
Australia	2.1790 - 2.1810	1.4740 - 1.4750
Brazil	92900.5 - 92902.5	62898.0 - 62899.5
Finland	8.6045 - 8.6320	5.8195 - 5.8395
Greece	348.250 - 353.250	233.500 - 238.200
Hong Kong	11.4510 - 11.4635	7.7560 - 7.7570
Iran	2361.00 - 2363.00	1595.00 - 1597.00
Korea(Sth)	1192.35 - 1211.55	804.30 - 810.70
Kuwait	0.45000 - 0.45100	0.30150 - 0.30200
Luxembourg	52.70 - 52.80	35.60 - 35.70
Malaysia	3.7965 - 3.8040	2.5700 - 2.5710
Mexico	4.6110 - 4.6140	3.1220 - 3.1240
N.Zealand	2.6880 - 2.6920	1.8200 - 1.8225
Saudi Ar	5.5350 - 5.5460	3.7495 - 3.7505
Singapore	2.3905 - 2.3965	1.6205 - 1.6215
S.Af (Cm)	4.9505 - 4.9815	3.3570 - 3.3590
S.Af (Fn)	6.6780 - 6.6910	4.5200 - 4.5300
Taiwan	39.15 - 39.30	26.50 - 26.60
U.A.E.	5.4135 - 5.4265	3.6715 - 3.6735

CURRENCY RATES

Jul 16	Bank § rate %	Special * Drawing Rights	European † Currency Unit
Sterling	-	0.927087	0.781276
U.S Dollar	3.00	1.38063	1.12973
Canadian $	4.58	1.78251	1.45080
Austrian Sch	6.25	N/A	13.7106
Belgian Franc	6.00	N/A	40.2129
Danish Krone	9.25	9.30262	7.57374
D-Mark	6.75	N/A	1.94800
Dutch Guilder	6.00	2.88211	2.19236
French Franc	10	8.14075	6.65583
Italian Lira	9.00	N/A	1803.12
Japanese Yen	2.50	149.423	121.448
Norway Krone	-	N/A	8.31428
Spanish Peseta	-	188.720	153.542
Swedish Krona	11.50	11.0583	9.04522
Swiss Franc	4.60	2.08485	1.71437
Greek Drach	19	N/A	266.052
Irish Punt	-	N/A	0.807241

§ Bank rate refers to central bank discount rates. These are not quoted by the UK, Spain and Ireland.
† European Commission Calculations.
* All SDR rates are for Jul 15

CHICAGO

U.S. TREASURY BONDS (CBT) 8% $100,000 32nds of 100%

	Close	High	Low	Prev.
Sep	115-30	116-11	115-15	115-22
Dec	114-23	115-04	114-08	114-15
Mar	113-18	113-29	113-03	113-09
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

JAPANESE YEN (IMM) Y12.5m $ per Y100

	Close	High	Low	Prev.
Sep	0.9293	0.9312	0.9198	0.9245
Dec	0.9300	0.9317	0.9210	0.9252
Mar	0.9319	-	-	0.9271
Jun	0.9336	-	-	[illegible]

DEUTSCHE MARK (IMM) DM125,000 $ per DM [illegible]

THREE-MONTH EURODOLLAR (IMM) $1m points of 100% [illegible]

U.S. TREASURY BILLS (IMM) $1m points of 100% [illegible]

BRITISH POUND (IMM) $a per £ [illegible]

SWISS FRANC (IMM) SFr 125,000 $ per SFr [illegible]

STANDARD & POORS 500 INDEX $500 times index [illegible]

PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per £1) [illegible]

POUND SPOT - FORWARD AGAINST THE POUND

Jul 16	Day's spread	Close	One month	% p.a.	Three months	% p.a.
US	1.4745 - 1.4890	1.4785 - 1.4795	0.38-0.36cpm	3.00	1.06-1.03pm	2.83
Canada	1.8880 - 1.9075	1.8925 - 1.8935	0.32-0.23cpm	1.74	0.85-0.71pm	1.65
Netherlands	2.8650 - 2.8875	2.8875 - 2.8775	½-¼cdis	-0.78	⅛-⅝dis	-0.78
Belgium	52.80 - 52.95	52.70 - 52.80	1-10cdis	-1.25	7-23dis	-1.14
Denmark	9.9200 - 9.9950	9.9275 - 9.9375	2½-3¼oredis	-3.47	5½-8½dis	-2.79
Ireland	1.0546 - 1.0635	1.0565 - 1.0575	0.04-0.08cdis	-0.68	0.12-0.17dis	-0.55
Germany	2.5450 - 2.5625	2.5475 - 2.5525	¼-⅜pfdis	-1.47	¾-⅞dis	-1.27
Portugal	247.25 - 249.25	248.00 - 249.00	113-125cdis	-5.75	319-347dis	-5.36
Spain	198.70 - 201.80	200.70 - 201.00	97-116cdis	-6.33	258-283dis	-5.37
Italy	2352.00 - 2374.25	2352.50 - 2353.50	6-8liredis	-3.57	18-21dis	-3.31
Norway	10.8050 - 10.9400	10.8950 - 10.9050	¼-¾oredis	-0.55	½-2¼dis	-0.48
France	8.7025 - 8.7625	8.7125 - 8.7225	1⅞-2¼cdis	-2.58	3⅞-4⅜dis	-1.89
Sweden	11.8425 - 11.9350	11.8600 - 11.8700	2-3¼oredis	-2.65	5⅞-7½dis	-2.25
Japan	159.00 - 161.00	159.50 - 160.50	½-¾ypm	3.28	1⅛-1pm	2.68
Austria	17.93 - 18.05	17.94 - 17.97	½-2grodis	-0.84	2-4dis	-0.67
Switzerland	2.2375 - 2.2550	2.2375 - 2.2475	⅜-¼cpm	1.34	¾-½pm	1.11
Ecu	1.3100 - 1.3176	1.3125 - 1.3135	0.22-0.26cdis	-2.19	0.55-0.61dis	-1.77

Commercial rates taken towards the end of London trading. Six-month forward dollar 1.84-1.79pm . 12 Month 3.16-3.06pm.

DOLLAR SPOT - FORWARD AGAINST THE DOLLAR

Jul 16	Day's spread	Close	One month	% p.a.	Three months	% p.a.
UK†	1.4745 - 1.4890	1.4785 - 1.4795	0.38-0.36cpm	3.00	1.06-1.03pm	2.83
Ireland†	1.3915 - 1.4010	1.3985 - 1.3995	0.46-0.43cpm	3.82	1.21-1.18pm	3.39
Canada	1.2785 - 1.2845	1.2790 - 1.2800	0.12-0.14cdis	-1.22	0.34-0.38dis	-1.13
Netherlands	1.9375 - 1.9495	1.9410 - 1.9420	0.60-0.63cdis	-3.80	1.68-1.72dis	-3.48
Belgium	35.50 - 35.80	35.60 - 35.70	12.00-14.00cdis	-4.38	31.00-35.00dis	-3.70
Denmark	6.7025 - 6.7350	6.7125 - 6.7175	5.00-6.50oredis	-10.28	9.75-11.75dis	-6.40
Germany	1.7210 - 1.7330	1.7240 - 1.7250	0.62-0.64pfdis	-4.38	1.72-1.75dis	-4.02
Portugal	167.00 - 168.35	167.55 - 167.65	118-123cdis	-8.83	335-350dis	-8.17
Spain	134.00 - 136.35	136.05 - 136.15	100-110cdis	-9.26	265-285dis	-8.08
Italy	1590.25 - 1601.50	1590.75 - 1591.25	8.40-9.00liredis	-6.56	24.00-25.00dis	-6.16
Norway	7.3375 - 7.4000	7.3675 - 7.3725	1.80-2.30oredis	-3.34	5.30-6.10dis	-3.09
France	5.8800 - 5.9200	5.8925 - 5.8975	2.45-2.70cdis	-5.24	6.45-6.85dis	-4.51
Sweden	7.9825 - 8.0675	8.0200 - 8.0250	3.50-4.10oredis	-5.68	9.60-10.50dis	-4.99
Japan	107.35 - 108.80	108.10 - 108.20	0.01dis-0.02ypm	0.06	0.02dis-par	-0.04
Austria	12.1200 - 12.1650	12.1550 - 12.1600	3.70-4.00grodis	-3.80	10.00-10.85dis	-3.43
Switzerland	1.5145 - 1.5285	1.5150 - 1.5160	0.19-0.23cdis	-1.66	0.54-0.60dis	-1.50
Ecu†	1.1215 - 1.1310	1.1260 - 1.1270	0.49-0.46cpm	5.17	1.31-1.28pm	4.62

Commercial rates taken towards the end of London trading. † UK, Ireland and Ecu are quoted in US currency. Forward premiums and discounts apply to the US dollar and not to the individual currency.

EXCHANGE CROSS RATES

Jul 16	£	$	DM	Yen	F Fr.	S Fr.	N Fl.	Lira	C$	B Fr.	Pta.	Ecu
£	1	1.479	2.550	160.0	8.717	2.242	2.872	2353	1.893	52.75	200.8	1.313
$	0.676	1	1.724	108.2	5.894	1.516	1.942	1591	1.280	35.67	135.8	0.888
DM	0.392	0.580	1	62.75	3.418	0.879	1.126	922.7	0.742	20.69	78.75	0.515
YEN	6.250	9.244	15.94	1000.	54.48	14.01	17.95	14706	11.83	329.7	1255	8.206
F Fr.	1.147	1.697	2.925	183.5	10.	2.572	3.295	2699	2.172	60.51	230.4	1.506
S Fr.	0.446	0.660	1.137	71.36	3.888	1	1.281	1050	0.844	23.53	89.56	0.586
N Fl.	0.348	0.515	0.888	55.71	3.035	0.781	1	819.3	0.659	18.37	69.92	0.457
Lira	0.425	0.629	1.084	68.00	3.705	0.953	1.221	1000.	0.805	22.42	85.34	0.558
C $	0.528	0.781	1.347	84.52	4.605	1.184	1.517	1243	1	27.87	106.1	0.694
B Fr.	1.896	2.804	4.834	303.3	16.53	4.250	5.445	4461	3.589	100.	380.7	2.489
Pta	0.498	0.737	1.270	79.68	4.341	1.117	1.430	1172	0.943	26.27	100.	0.654
Ecu	0.762	1.126	1.942	121.9	6.639	1.708	2.187	1792	1.442	40.18	152.9	1

EURO-CURRENCY INTEREST RATES

[illegible]

FT LONDON INTERBANK FIXING

[illegible]

MONEY RATES

[illegible]

LONDON MONEY RATES

[illegible]

LONDON RECENT ISSUES

EQUITIES

[illegible]

RIGHTS OFFERS

[illegible]

BANK OF ENGLAND TREASURY BILL TENDER

[illegible]

WEEKLY CHANGE IN WORLD INTEREST RATES

TOKYO		
One month	3¼	-
Three month	-	-
BRUSSELS		
One month	8¼	+1¼
Three month	7½	+⅝
AMSTERDAM		
One month	7.005	Unch'd
Three month	6.840	Unch'd
PARIS		
Intervention Rate	6.75	Unch'd
One mth. Interbank	8¼	Unch'd
Three month	7⅞	Unch'd
MILAN		
One month	9⅞	-½
Three month	9⅝	-⅛
DUBLIN		
One month	6¾	+⅛
Three month	6⅞	+⅛

BASE LENDING RATES

	%		%		%
Adam & Company	6	Cyprus Popular Bank	6	NatWestminster	6
Allied Trust Bank	6	Duncan Lawrie	6	Nykredit Mortgage Bnk	6.5
AIB Bank	6	Equatorial Bank plc	6	●Rea Brothers	6
●Henry Ansbacher	6	Exeter Bank Limited	7	Roxburghe Bank Ltd	6
B & C Merchant Bank	13	Financial & Gen Bank	7	Royal Bk of Scotland	6
Bank of Baroda	6	●Robert Fleming & Co	6	●Smith & Williamson Secs	6
Banco Bilbao Vizcaya	6	Girobank	6	Standard Chartered	6
Bank of Cyprus	6	●Guinness Mahon	6	TSB	6
Bank of Ireland	6	Habib Bank AG Zurich	6	●United Bk of Kuwait	6
Bank of India	6	●Hambros Bank	6	Unity Trust Bank Plc	6
Bank of Scotland	6	Heritable & Gen Inv Bk.	6	Western Trust	6
Barclays Bank	6	●Hill Samuel	6	Whiteaway Laidlaw	6
Brit Bk of Mid East	6	C. Hoare & Co	6	Wimbledon & Sth West.	7
●Brown Shipley	6	Hongkong & Shanghai.	6	Yorkshire Bank	6
CL Bank Nederland	6	Julian Hodge Bank	6		
Citibank NA	6	●Leopold Joseph & Sons	6		
City Merchants Bank	6	Lloyds Bank	6		
Clydesdale Bank	6	Meghraj Bank Ltd	6		
The Co-operative Bank	6	McDonnell Douglas Bk.	6		
Coutts & Co	6	Midland Bank	6		
Credit Lyonnais	6	Mount Banking	6		

● Members of British Merchant Banking & Securities Houses Association

STOCK INDICES

	July 16	July 15	July 14	July 13	July 12	June 9	1993 High	1993 Low	Since Compilation High	Since Compilation Low
FT-SE 100	2833.0	2831.7	2832.3	2837.1	2830.9	2843.2	2957.3	2737.6	2957.3	986.9
FT-SE Mid 250	3217.5	3225.5	3222.5	3230.0	3228.6	3236.8	3241.7	2876.3	3241.7	1379.4
FT-SE-A 350	1418.9	1419.2	1419.2	1421.8	1419.2	1424.8	1457.1	1348.7	1457.1	684.5
FT-A All-Share	1405.72	1406.10	1405.97	1408.44	1408.16	1411.46	1438.22	1086.13	1438.22	61.92
FT-SE Eurotrack 100	1234.37	1229.70	1237.14	1235.91	1232.90	1230.56	1230.56	1063.02	1230.56	900.45
FT-SE Eurotrack 200	1281.68	1278.79	1283.38	1279.32	1274.63	1274.12	1274.12	1144.79	1274.12	938.62
FT Ordinary	2218.8	2221.5	2220.9	2228.5	2221.1	2229.2	2299.5	2124.7	2299.5	49.4
FT Government Secs.	98.31	98.45	98.46	97.90	98.06	97.89	98.46	93.28	127.40	49.18
FT Fixed Interest	116.97	117.01	116.84	116.53	116.21	116.00	117.01	106.67	117.01	50.53
FT Gold Mines	224.5	221.0	225.3	221.3	225.8	222.2	239.3	80.0	734.7	43.5

LONDON SHARE SERVICE

BRITISH FUNDS

[illegible]

Five to Fifteen Years

	Price £	W'k % ch'ge	Amnt £m	Interest due	Last xd	City line
Treas 15½pc '98‡‡	136¼	-	936	Mr30 Se30	22.2	1308
Exch 12pc 1998	121	-	3,909	My20 Nv20	13.4	1259
Treas 9½pc 1999‡‡	111⅞	-.1	1,900	Jy15 Ja15	8.6	1347
Exch 12¼pc 1999	122⅞	-	3,050	Se26 Mr26	17.2	1264
Treas 10½pc 1999	115⅞	0.1	1,252	Nv19 My19	13.4	1386
Conversion 10¼pc 1999	115⅞	0.2	1,798	My22 Nv22	15.4	1242
9pc 2000‡‡	109¾	0.2	4,758	Se3 Mr3	25.1	1244
Treas 13pc 2000	129⅞	0.2	3,171	Ja14 Jy14	7.6	1299
10pc 2001	114⅞	0.5	4,406	Au26 Fe26	20.1	1280
9¾pc 2002	114⅞	0.6	6,527	Fe27 Au27	21.1	1349
8pc 2003‡‡	104⅛	0.8	4,150	Ja10 De10	4.5	-

BRITISH FUNDS - Cont.

[illegible]

Undated

	Price £	W'k % ch'ge	Amnt £m	Interest due	Last xd	City line
Consols 4pc	49½xd	1.7	359	Fe1 Au1	25.6	1239
War Loan 3½pc‡‡	43¼	1.2	1,909	Je1 De1	28.4	1352
Conv 3½pc '61 Aft.	63⅞	0.3	122	Ap1 Oc1	23.2	1243
Treas 3pc '66 Aft.	38⅝	-.7	56	Ap5 Oc5	23.3	1324
Consols 2½pc	32⅞	-	276	5JaApJyOc	1.6	1238
Treas. 2½pc	31	0.5	475	Ap1 Oct	23.2	1315

BRITISH FUNDS - Cont.

[illegible]

OTHER FIXED INTEREST

	Price £	W'k % ch'ge	Amnt £m	Interest due	Last xd	City line
[illegible]						
Hydro Quebec 15pc 2011	151⅞	0.9	40	My31 Nv31	27.10	-
Leeds 13½pc 2006	137¼	0.5	40	Ap1 Oc1	12.3	3146
Liverpool 3½pc Irred.	37⅞	1.3	5	1JaApJeOc	1.6	3169
LCC 3pc '20 Aft.	33¼	0.7	28	1MrJeSeDe	1.8	-
Manchester 11½pc 2007	122	0.8	7	Ap25 Oc25	30.3	3275
Met. Wtr. 3pc 'B'	68½	0.2	25	Mr1 Se1	1.8	3361
N'wide Anglia 3⅞pc 2021	130⅝	0.6	60	Ja30 Jy30	8.1	3465
4¼pc IL 2024	126	0.6	80	Fe23 Ap23	20.7	-
Utd Mex States 16½pc 2008	141¼	0.7	60	Mr1 Se1	27.8	-

Continued on next page

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co. and NatWest Securities Limited in conjunction with the Institute of Actuaries and the Faculty of Actuaries

[illegible]

MONEY MARKET FUNDS

Money Market Trust Funds

[illegible]

Money Market Bank Accounts

[illegible]

LONDON SHARE SERVICE

AMERICANS

	Notes	Price £	W'k% ch'nge	Div gross	Dividends paid	Last xd	City line
Abbott Labs		17xd	-1.1	68c	FeMyAuNv	12.7	1503
Allegheny & W	♥	613p	-3.3	30c	–	–	–
Amdahl		347p	2.7	5c	NvFeJeAu	31.1	–
Amer Cyanamid		35¼	0.7	$1.65	MrJeSeDe	4.3	–
Amer Express		21⅞xd	2.9	$1.00	FeMyAuNv	6.7	1594
Amer T & T		43xd	3.6	$1.32	FeMyAuNv	25.6	1597
Ameritech		62	-1.9	$3.68	FeMyAuNv	28.3	–
BankAmerica		28⅝xd	-1.2	$1.40	MrJeSeDe	18.5	1744
Bankers NY		61¼xd	-.7	$3.12	ApJyOcJa	24.12	1745
Bell Atlantic		38	-3.8	$2.68	FeMyAuNv	4.7	–
BellSouth		37½	-2	$2.76	FeMyAuNv	6.4	–
Bethlehem Steel	♥	12¾xd	3.7	–	MrJeSeDe	6.2	1821
Bowater		1386pxd	3.7	80¢	OcJaApJy	9.3	1884
CPC		27⅝xd	0.6	$1.28	JaApJyOc	25.6	2283
California Engy		1234p	–	–	–	–	–
Chase Manhattan		21⅞xd	-1.4	$1.20	FeMyAuNv	27.4	2109
Chrysler		31⅛xd	-1.0	60c	ApJyOcJa	15.6	2135
Citicorp		21⅛xd	-.8	–	–	23.10	2141
Colgate-Palm		38⅛xd	0.2	$1.44	FeMyAuNv	22.7	2184
Cont'l Bank		1584p	-6.1	60c	DeMrJeSe	31.5	–
Dana		36⅛xd	3.1	$1.60	MrJeSeDe	26.5	2306
Data General		626p	3.3	–	–	–	–
Decora Inds.	♥	135p	–	–	–	–	–
Dun & Brad		40⅝	2.3	$2.44	MrJeSeDe	13.2	–
Eaton	h	29¼	-.4	$1.10	FeMyAuNv	2.2	2410
Echlin		20⅛xd	6.3	70c	JaApJyOc	30.6	3046
FPL		25⅞xd	2.2	$2.48	MrJeSeDe	25.5	–
Ford Motor		34⅛xd	0.4	$1.60	MrJeSeDe	27.4	2615
Gen Elect		65⅝xd	2.4	$2.52	JaApJyOc	3.8	2675
General Host	♥	556p	6.4	34c	–	13.12	–
Gillette		36½xd	-3	84c	MrJeSeDe	28.4	2695
Hasbro		20⅞	–	24c	FeApJyNv	1.8	–

CANADIANS

BANKS

BREWERS & DISTILLERS

BUILDING MATERIALS

BUILDING MATERIALS - Cont.

BUSINESS SERVICES

CHEMICALS

CONGLOMERATES

CONTRACTING & CONSTRUCTION

CONTRACTING & CONSTRUCTION - Cont.

ELECTRICALS

ELECTRICITY

ELECTRONICS

ENGINEERING-AEROSPACE

ENGINEERING-GENERAL

ENGINEERING-GENERAL - Cont.

FOOD MANUFACTURING

FOOD RETAILING

HEALTH & HOUSEHOLD

HOTELS & LEISURE

HOTELS & LEISURE - Cont.

INSURANCE BROKERS

INSURANCE COMPOSITE

INSURANCE LIFE

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

LONDON SHARE SERVICE

INVESTMENT TRUSTS - Cont.

INVESTMENT COMPANIES

MEDIA

MERCHANT BANKS

METALS & METAL FORMING

MISCELLANEOUS

MOTORS

OIL & GAS

OTHER FINANCIAL

OTHER INDUSTRIALS

PACKAGING, PAPER & PRINTING

PACKAGING, PAPER & PRINTING - Cont.

PROPERTY

STORES

STORES - Cont.

TELEPHONE NETWORKS

TEXTILES

TRANSPORT

WATER

SOUTH AFRICANS

PLANTATIONS

MINES

MINES - Cont.

Glencar Expl IE ‡‡	11	....	-	-	-	-	-
Greenwich Res ☐	19	2.7	-	-	-	-	2773
Hemlo Gold C$	871/2	....	020c	-	Dec Jun	8.11	-
Ivernia West IE ‡‡☐	41	2.5	-	-	-	-	-
Kells Mints IE ‡‡	13	....	-	-	-	-	3741
Kenmare ☐	9	....	-	-	-	-	1483
Malinga Res.	14	-3.4	-	-	-	-	-
Navan Res IE	88	1.7	-	-	-	-	1185
5pc Ln Notes	861/2	....	-	-	-	-	-
Oryx Gold	761/2	....	-	-	-	-	3686
‡‡Ovoca Res IE	51/2	57.1	-	-	-	-	1470
RTZ N☐	669	-1.5	19.5	1.3	Dec Aug	7.6	3880
Vizcaya	51/4#	....	-	-	-	-	4193

GUIDE TO LONDON SHARE SERVICE

Company classifications are based on those used for the FT-Actuaries Indices and FT-Actuaries World Indices.

Closing mid-prices are shown. Prices and net dividends are in pence unless otherwise indicated.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Dividend covers are based on "maximum" distribution; this compares gross dividend costs to profit after taxation, excluding exceptional profits/losses but including estimated extent of offsetable ACT. Market Capitalisations are published on Tuesdays-Saturdays except for Investment Trusts and British Funds.

- ☐ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ).
- ● "Tap Stock"
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ‡‡ Tax-free to non-residents on application
- ◆ Figures or report awaited
- ♥ Not officially UK listed; dealings permitted under rule 535(4)(a)
- ♣ Free annual/interim report available, see details below.
- ✤ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Not officially UK listed; dealings permitted under Rule 535(2)
- # Price at time of suspension
- ¶ Indicated dividend after pending scrip and/or rights issue; cover relates to previous dividend or forecast.
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend; cover based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme

a Annualised dividend. b Figures based on prospectus or other official estimates. c Cents. f Flat yield. g Assumed dividend. h Assumed dividend after scrip issue. m Interim higher than previous total. n Rights issue pending. q Earnings based on preliminary figures. s Dividend excludes a special payment. t Indicated dividend: cover relates to previous dividend. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. v Not subject to ACT. z Dividend includes a special payment: Cover does not apply to special payment. E Auction basis. F Dividend based on prospectus or other official estimates for 1994-95. G Assumed dividend after pending scrip and/or rights issue. H Dividend based on prospectus or other official estimates for 1993. K Dividend based on prospectus or other official estimates for 1992-93. L Estimated annualised dividend, cover based on latest annual earnings. M Dividend based on prospectus or other official estimates for 1993-94. N Dividend based on prospectus or other official estimates for 1992. P Figures based on prospectus or other official estimates for 1994. Q Gross. R Forecast annualised dividend, cover based on prospectus or other official estimates. T Figures assumed. W Pro forma figures. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xy ex capital distribution

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1235 a year for each security shown, subject to the Editor's discretion

FT Share Service

The following changes have been made to the FT Share Information Service: Additions: Airtours 6pc Prf. (Hotels & Leis), First Spanish Cv Ln '97 (Inv Trusts), Simsmetal (Metal & Mtl Forming), Quayle Munro (Other Financial) and RJB (Other Industrials). Deletions: Pasminco (Mines).

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An International service is available for callers outside the UK, annual subscription £250 stg.

Call 071-873 4378 (+44 71 873 4378, International) for more information on FT Cityline.

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

4 pm close July 16

1993 High	Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
14⅝	11½	AAR Corp	0.48	3.6	24	61	13½	13⅛	13¼	-⅛
29⅜	20	A L Labs A	0.18	0.7	45	32	25⅞	25⅝	25⅞	+⅛
63⅞	54⅝	AMP Inc	1.60	2.6	21	1375	61½	60⅝	60⅝	-¾
72¼	55½	AMR			9	6576	62½	60¾	60¾	-1¼
2¼	1⅜	ARX			15	83	2⅝	2½	2½	
51½	29⅞	ASA	2.00	4.2	31	521	48	47¼	47¼	-¾
30¾	22⅝	Abbott Lab	0.68	2.7	15	9344	25¼	24¾	24⅞	-⅜
12⅞	10¼	Abitibi Pr	0.50	4.7	4	13	10⅝	10½	10⅝	+⅛
14⅛	8¼	Acpincain			235	615	u14⅛	13⅞	14⅛	+⅛
32	25½	ACE Ltd	0.40	1.4		281	29½	29¼	29¼	-¼
12	10¾	ACM Gvt In x	0.96	8.0		124	u12	11⅞	12	+⅛
10	9⅛	ACM GvOpp x	0.80	8.2		26	9⅞	9¾	9¾	-⅛
9⅝	8¾	ACM Gvt Sp	0.80	8.4		335	u9⅝	9½	9½	-⅛
11½	10½	ACM Gvt Se	0.96	8.3		741	u11½	11⅜	11½	+¼
11⅝	9⅝	ACM Mun x	1.08	9.4		123	u11½	11¼	11½	+⅛
9⅜	8⅝	ACM Managd x	0.72	7.9		189	9¼	9⅛	9⅛	
12⅜	7¾	Acme Clevg	0.40	3.5	14	466	11⅞	11⅜	11⅜	-⅝
9¼	6½	Acme Elect			250	z100	7½	7½	7½	
24¾	18⅜	Acordia	0.44	2.0	13	22	22⅜	22¼	22⅜	-⅛
16	10⅜	Acuson			13	171	11¾	11⅝	11¾	
22¼	19⅝	Adams Expr	0.46	2.3	1	31	20½	20⅜	20½	+⅛
66	45½	Ad Micro	3.00	5.7		126	54	52½	52½	-2
32¾	17⅝	Ad Micro P	3.00	13.0	9	6993	24⅛	22¾	23	-1¼
7¾	5½	Advest Grp	0.16	2.7	9	37	5⅞	5¾	5⅞	+⅛
24¾	18	Advo Inc	0.08	0.4	20	15	18¾	18⅝	18⅝	-⅛
48⅞	41⅛	Aegon ADR	2.85	6.6	9	136	45⅜	45⅛	45⅜	+⅝
57¾	43⅜	Aetna Lf	2.76	4.9	145	2280	57½	56½	56⅞	-⅝

Continued on next page

4 pm close July 16

NYSE COMPOSITE PRICES

Continued from previous page

- S -

1993 High	Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Chge Prev. Close
22	15½	S Anita Rt x	1.38	7.7	17	373	18¼	17½	17⅝	-⅞
20¾	15¾	SCOR US Cp	0.32	2.0	200	14	18⅛	18	18	
28¼	20	SPS Techno	1.28	4.6	20	18	28	27½	27¾	-¼
14½	12⅞	Sabine Rt x	1.77	13.4	9	23	13¾	13⅛	13¼	
13¾	8⅞	Safecard	0.20	1.5	12	235	13¼	13⅛	13¼	+⅛
23½	16⅞	Safeg'd Sc			9	87	18⅞	18⅜	18⅞	
24¾	16¼	SafetyKln	0.36	2.1	25	1387	17⅛	16⅞	16⅞	
18¾	10⅞	Safeway			28	8461	u17⅝	16¾	17⅜	+⅜
3⅝	2	SafewayW98				1005	u3⅞	3⅝	3¾	+¼
44½	37½	StJoePaper	0.20	0.5	99	50	42¼	41¾	41⅞	-⅛
37⅛	31	StJosL&P	1.76	4.9	14	15	36¼	36	36	-½
86¾	76	St Paul's	2.80	3.3	13	964	u86⅜	85⅛	85¼	-⅛
11⅞	7⅞	Salant Crp			6	41	10¾	10⅝	10¾	
75¼	39⅞	Sallie Mae	1.20	2.8	9	4844	43⅛	42¼	42⅜	-⅞
13⅞	13	Salomon Br	0.36	2.7		269	13½	13⅜	13½	+⅛
41⅞	34	SalomonInc	0.64	1.6	20	2451	39⅛	38¾	39⅛	+⅛
28⅞	23¼	SanDgo G&E	1.48	5.6	14	298	26½	26⅛	26⅜	+⅜
4⅞	3½	SantaFeEDu	0.40	10.3	193	37	4	3⅞	3⅞	-⅛
11⅞	9⅛	SantaFeERs	0.16	1.6	976	761	9⅞	9½	9¾	+⅜
40¾	35¾	SantaFePac	2.80	7.2	13	17	38¾	38½	38¾	+⅛
18½	12¾	SantaFeSth	0.10	0.6	19	2268	17¼	16⅞	17⅛	+⅛
31⅛	23⅜	Sara Lee	0.58	2.4	17	4461	24⅜	24	24	

[illegible]

- T -

1993 High	Low	Stock
9½	5½	TCBY Enter
34⅞	27¾	TCF Financ
10⅛	8¾	TCW Conv S
37⅞	25⅝	TDK Corp A
3⅜	2¼	T I S Mtge
34¼	26¼	TJX Cos
19½	17½	TNP Enterp
69⅝	52½	TRW Inc
25⅞	9⅝	T2 Medcl
24¼	17⅛	Taiwan Fd
7¾	3⅛	Talleyind
12¼	6½	Talley Pf
65	39½	Tambrands
16⅝	9⅝	Tandem
32⅞	24⅝	Tandy Corp
13½	12	Taurus Mun
47⅞	40⅛	Teco Energ
27⅞	20⅛	Tektronix
5	1¼	Telecom Co
23½	18½	Teledyne
34⅝	28½	TeleEspSA
59⅞	44⅞	Telmex ADR
52½	41⅜	Templeinl
22¼	14⅛	TempltEmMk
9⅛	8⅜	TempltGlob

[illegible]

- U -

[illegible]

- V -

[illegible]

- W -

[illegible]

- X - Y - Z -

[illegible]

NASDAQ NATIONAL MARKET

4 pm close July 16

[illegible]

AMEX COMPOSITE PRICES

4 pm close July 16

[illegible]

MONDAY INTERVIEW

Dreams that circle the globe

Bob Allen, the chairman of AT&T, speaks to **Andrew Adonis**

Reuter

'Europe is an important place for us'

As the scourge of Europe's state telecommunications monopolies, Bob Allen comes as a bit of a shock. The chairman of American Telephone and Telegraph, the US telecoms giant banging at Europe's door, is mild-mannered to the point of diffidence, disarmingly quick to admit past mistakes and present ignorance.

However, fresh from an interview with the European Commission's Jacques Delors – "President Delors", he calls him – there was nothing coy about Mr Allen's presence in Brussels, and his subsequent trip to Berlin last week. "Europe is an important place for us. We have a lot of investment here... If the protective barriers come down, the opportunities will be great."

Since taking the helm at AT&T in 1988, "going global" has been one of Mr Allen's chief ambitions. Whatever its impact on competition overseas, the strategy is transforming AT&T. Ten years ago, the company had only 60 employees outside the US; now it has 30,000. For Mr Allen, who spent the formative years of his career working his way up Indiana's Bell company, the challenge is as much personal as corporate.

The biggest barrier to European telecommunications competition looks set to fall by 1998, when basic voice telephony will be opened up in most EC states. But AT&T is not waiting five years to make its pitch. As an equipment supplier, it is already competing strongly in the liberalised equipment market. It has an application pending to become a public operator in the UK. And its ambitious "Worldsource" venture, which aims to provide an integrated global telecommunications platform for multinationals, is scouring Europe for suitable local partners for its launch on the continent next year.

The backdrop to AT&T's global ambitions is bitter competition in its long-distance market at home. But, insists Mr Allen: "We are not driven solely by competition in our home market to go elsewhere... What causes us to look outside the US and to globalise our business is the huge investments required, particularly in information technology, to stay on the leading edge. If we can't spread those investments over a larger base, then there just isn't enough growth capacity in the US [to do so].

"The fundamental heart of our strategy resides in our global network." In Europe "we would tend towards the partner route", rather than towards taking equity stakes in existing operators".

Although in public Europe's leading operators criticise "unfair" US competition, there is no shortage of private enthusiasm to become one of AT&T's Worldsource partners. The fear is about direct competition with AT&T at home – many allege that AT&T's capacity to shift costs between its divisions will allow it to pick off the most lucrative parts of their business one by one.

Mr Allen's response? "It is impossible to cross-subsidise one business to another when all of your markets are competitive – well, it's not impossible... but you may lose your life in doing so. The competitive discipline in all our businesses makes it impossible." He points to AT&T's 25 business units: "If you think any of them are willing to subsidise another business or part of it, then you don't know how motivated they are to be successful. I defy anybody to come in and get into our innermost books and find cross-subsidy."

Might AT&T agree to formal accounting separation between its divisions, on a similar basis to that proposed for BT by Oftel, the UK's telecommunications regulator? "We do that today, though we don't report it publicly in all quarters."

Mr Allen has little time for his regulator back home, the Federal Communications Commission. "I find it hard to believe that, with four major competitors to AT&T in the US, we need much regulation." The FCC could, he says, "virtually fall away" if its staff "weren't so interested in protecting their own jobs".

Mr Allen is adamant that in Europe regulation is needed to break the market open. At what level of competition should the regulator wither away? "You need to look at more than gross market share [gained by competitors]; you need to look at market segments" – but he will not offer figures for either.

That Europe needs AT&T Mr Allen has no doubt. "As a general rule, the development of telecommunications [in Europe] is trailing the US... and therein lies one of the challenges for the unification of the European Community. Europe needs a telecommunications infrastructure that is uniform and modern... and it probably will not have such while it has protected industries."

What of the strategic importance of national telecommunications networks? "It's essentially an arrogant approach for a government official to say: 'I know better how to manage the telecoms system and to protect its strategic value' than to let the marketplace dictate improvement in this strategic asset." He applies that to Vice-President Al Gore's dreams of a fibre-optic communications "super highway" across the US. "Not for a moment do I want them [the Clinton administration] to... do anything other than stand outside and display a vision and support for improvement of the network."

PERSONAL FILE

1935 Born Missouri; educated Wabash College, Indiana.
1957 Joined Indiana Bell.
1969 General commercial manager, later vice-president, Indiana Bell.
1978 Business services vice-president, AT&T, leading to a succession of other senior posts.
1986 President and chief operating officer, AT&T.
1988 Chairman and chief executive, AT&T.

With its imminent purchase of a stake in McCaw, the US cellular company, speculation is rife as to AT&T's intentions to enter local telecommunications in the US, from which it was barred at the break-up of the Bell structure in 1984.

Mr Allen claims the notion is based on a "misconception" of the role of cellular communications. Rather, he cannot understand why US local operators – the so-called "RBOCs" – are so anxious to compete in AT&T's long-distance market: "99 per cent of our access payments last year went to the RBOCs; 25 per cent of their revenues, and in some cases all of their profits came from us... One wonders why they want to destroy such a good business and get into the other 60 per cent of the market... stimulating competition [in their market] and see their margins and profits disappear."

However, with new technology and the development of multi-media – the convergence of computing, telecoms and the entertainment industry – the enforced division of the US market between operators is looking anachronistic. Mr Allen, who barely uses the word "telephone" these days, is positioning AT&T as the linchpin of new alliances to bring new products to market. "It is our intent to make the network adaptable and useable to all forms of media.

"It is entirely conceivable we could offer 'data warehouses' for a variety of companies offering multi-media services," he says. "We would do the billing, servicing the account, for, say, MGN, Library of Congress, and so on. That's not necessarily our vision," he adds hastily: "we have our own debates about whether we should merely be a distributor or whether we should own the content; we don't know anything about making movies, but we do know something about delivering them."

Multi-media, however, is tomorrow's world: in the shorter term, AT&T sees China as perhaps its biggest growth prospect. Like all equipment suppliers and operators, Mr Allen is daunted by the Olympian scale of the Chinese market. Earlier this year AT&T signed a memorandum of understanding which it hopes will lead to orders and joint ventures. "There are sure going to be bumps on the road; but we are going to try and see it through.

"One of the dreams here," he says of AT&T's Chinese exploits, "is that we have an opportunity to bring new levels of information-sharing that few other countries have. It's not something I talk about much," he adds, "because shareholders want returns, customers want to be served, but when you step away from the daily grind... it does give you a sense of purpose with a higher ideal than returns."

So AT&T is the west's Trojan horse in China. It remains to be seen whether Europe is as receptive to Mr Allen's offerings.

The Hallelujah budget plan

MICHAEL PROWSE on AMERICA

The "spin doctors" responsible for selling President Bill Clinton's economic plan are distributing a strategy paper entitled, Hallelujah: change is coming. Perplexed that the plan's approval ratings have plunged since its unveiling in February, they are urging officials to ignore the details and simply proclaim the good news that a courageous president is at last taking tough fiscal decisions. But are the cries of hallelujah justified or is Clintonomics one of those phoney religions that will not deliver on its promises?

As congressional leaders begin haggling over the final shape of the plan, the first illusion to dispel is that it offers change in any meaningful sense. The one novel element in the original plan was the broad-based tax on energy that was slated to raise \$70bn over five years. This was hardly onerous as it represented an annual tax equivalent to only about 0.2 per cent of gross domestic product or about a fortieth of total federal tax receipts. Yet it proved too much for senators from energy states who substituted a feeble 4.3 cents per gallon fuels tax that would raise only \$20bn.

Hopes of introducing a serious energy tax have now all but evaporated. The Senate's fuels tax is regarded as the outer envelope of what is politically possible and many Democrats would prefer no tax on energy at all. That way, the argument runs, Mr Clinton could send a clear message to the electorate: that he is raising taxes only on corporations and the wealthy and thus is sticking by his campaign pledge not to impose new taxes on the bulk of "middle income" families.

Scaling back or dropping the energy tax leaves a hole in the Clinton plan because negotiators from the House of Representatives are determined to reinstate measures favouring poor families, such as tax-favoured urban "empowerment" zones, that were axed by the Senate in June. Yet the dispute, while serious, is a second order issue. The crucial point is that the Clinton plan was never a sharp break from the past.

The \$500bn in deficit "cuts" over five years sound impressive only because they are measured relative to a steeply rising "baseline" that assumes programmes are automatically adjusted for inflation, growth of client populations and so forth. On White House projections, the structural deficit – the deficit adjusted for the economic cycle – will be about 3 per cent of GDP in 1998, roughly the same as in the late 1980s. Over the next five years the federal debt is set to rise by another \$1.2bn – hardly an exercise in austerity.

Allowing for inflation, the package is roughly the same size as Republican efforts at fiscal consolidation, such as President George Bush's much maligned 1990 budget accord with Congress and the original 1985 Gramm Rudman deficit reduction act. Indeed, the impact of the Clinton plan in the first two years (which is all that really matters since such deals are always renegotiated as economic conditions change) is similar to that of the Bush plan. Neither control non-defence expenditure: the expected annual increases are 7 per cent under Clinton as opposed to 9 per cent under Bush. They raise similar amounts of revenue, the main difference being that half of the new Bush taxes were garnered from a broad increase in excise taxes.

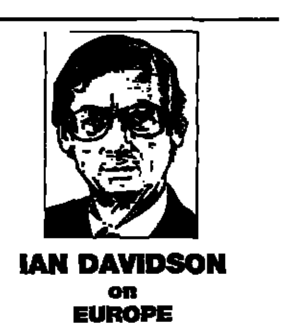
To transform the budget outlook, Mr Clinton needs either to impose an effective curb on the growth of "entitlement" spending or to raise taxes substantially on all sections of the population. He is not willing to do either. Even if the health-care reform due in September is relatively bold, Congress is likely to baulk at measures that really bite, such as rationing of high-tech equipment. Nobody expects serious cuts in federal pensions, the other big entitlement programme.

On the revenue side, Mr Clinton is dangerously reliant on tax increases on the 1 per cent or so of families with incomes of \$200,000 or more. If the energy tax disappears, up to three-quarters of the increase in federal revenue may be sought from the wealthy. The plan is to raise taxes on the rich by about a fifth over five years while holding increases on other income classes to 2 per cent or less. This is seen as a just retribution for the greedy 1980s when the rich gained at the expense of the rest of society.

In fact, deep cuts in top marginal tax rates under President Ronald Reagan were associated with a sharp increase in the share of federal taxes paid by the rich. Since the increase in the top rate from 28 per cent to 31 per cent in 1990, tax receipts from the wealthy have fallen in absolute terms. Like it or not, the rich will always enjoy considerable discretion over how hard they work and, more important, how much of their income they declare for tax purposes.

There can be no certainty that jacking up marginal tax rates from 31 per cent to 40 per cent or more will raise large additional sums from this fiscally-sophisticated group. In this respect, the Clinton plan is even less plausible than previous Republican attempts to reduce the deficit. If the economy strengthens markedly in the next two years, the deficit could fall faster than expected for cyclical reasons. But it would be a temporary reprieve as nothing has yet been done to correct the adverse longer-term trends. The hallelujahs are premature.

Failure on every front



IAN DAVIDSON on EUROPE

People are starting to speak about the tragedy of Bosnia in the past tense. They express outrage or resignation, compassion or contempt, but they speak as if it were all virtually over. Europe failed, they say; the United Nations failed; the Vance-Owen plan is dead; the Serbs have won. It is terrible for them, and shameful for us.

They imply that the Serb military victory – or the joint Serb-Croat victory and the consequent territorial carve-up of Bosnia – is leading to a settlement of the conflict. Not the peaceful diplomatic settlement hoped for from the London conference; nor the consensual, settlement laid out in the bizarre Vance-Owen plan. Instead, it is a bloody, messy and unfair settlement, they say. But all wars come to an end eventually, and the end of this war will at least be a settlement of sorts.

This line of thinking is mistaken. The Serbs may be winning a territorial victory. But we have no reason to suppose it will produce an end to the conflict. Even if an agreement is signed, there will be no basis for peace, and one way or another fighting will continue.

This is because the Serbs' nationalistic objectives are designed to exclude any chance of peace. The atrocities which have been committed in the name of an atavistic national crusade, the slaughter inflicted on so many tens of thousands, cannot fail to provoke bloody acts of revenge for years to come.

There is an axiom which states that you should never *drive too hard a bargain,* because it will simply not be kept by the other side. This is exactly the kind of bargain which the Serbs seem to be trying to drive: a carve-up which would not just be *unfair* to the Moslems, but would give them a mini-territory which was vulnerable, cut off and unviable.

Together these moral and strategic flaws produce an inflammable mixture. It will be made more explosive by the mass of homeless refugees. About 3.8m people have been displaced by the war. The US State Department calculates that a complete ethnic carve-up of Bosnia would require the resettlement of 1.5m-2m people. Evidence from the partition of India and Pakistan in 1947, suggests that such vast transfers of population cannot take place without massive violence.

In any event, many hundreds of thousands will remain homeless refugees. Many will simply submit. But some of those whose fate is destitution will seek revenge. That means terrorism.

In the Middle East, the Israelis have saddled themselves with a problem they cannot solve. This is because they will not make peace with the Palestinians *inside* Israel; nor will they make peace with the Palestinians *outside* Israel. Since the Palestinians refuse to disappear, there is a continuous low-level conflict. It is hard to believe that the Serbs are deliberately setting out to imitate the Israelis, but that is the way it looks.

Some people will shrug their shoulders. We tried to mediate, they will say; we offered a peace process, but we failed. If they want to go on killing each other, it's their funeral. It's not our problem.*

But it is our problem, for at least three reasons: refugees, international recognition and the role of the United Nations.

European Community policy is to keep out asylum-seekers, by sending them back to the first "safe" country they pass through. Since all the Community's neighbours are now designated "safe" countries, this means that the Community expects Switzerland, Austria, the Czech Republic, Poland and others to deal with Europe's refugee problem. The idea that the Community can shuffle off Europe's vast and growing refugee problem onto smaller and weaker countries is politically unsustainable.

In any case, such a policy will not work. If a significant proportion of the 3.8m displaced persons from the former Yugoslavia tries to get into the Community, many will certainly succeed, legally or illegally, because the pressures will be irresistible. The war in the former Yugoslavia inevitably has consequences for us. *We recoiled from the costs of* intervening, so we shall have to bear the costs of not intervening.

But suppose the Serbs do cut a deal with the Croats and the Moslems, what then? We shall have to decide whether to recognise their "settlement". If we do, we may have to insist on policing it, to minimise its injustices and the risks of further war. If we don't, presumably we have to continue sanctions against Serbia. But to what end, and on what conditions?

The dilemma is unavoidable. If we were unable to influence the war when it was going on, can we really pretend to influence the results when it is over?

And yet, how can we possibly endorse the Serbs' war of conquest? How can we even allow them to remain in the UN, when they have flagrantly offended, both against the organisation and against its basic principles?.

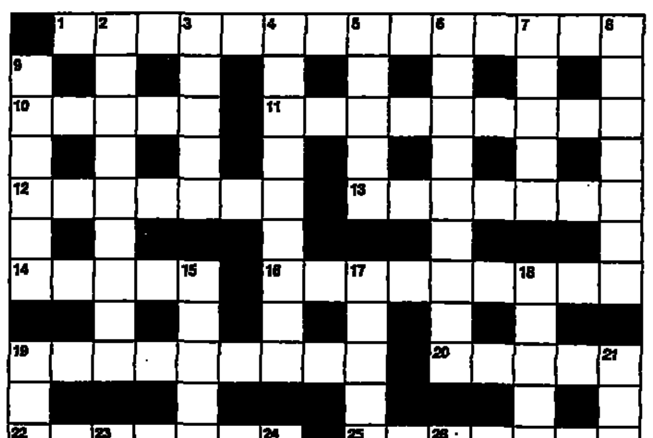
And so to the UN. Experts debate whether the international community really can claim a new "right of interference", overriding national sovereignty in the name of higher values.

The political facts, as seen in Bosnia and Somalia, are threefold: no nation state, from Italy to the US, is prepared to submit to UN authority; every interventionist has a different policy; and none of them has an interventionist policy worth tuppence. The rest is just legalistic scratching.

** The Carnegie Endowment has republished its 1913 Inquiry into the Balkan Wars of 1912 & 1913, with an introduction by George Kennan.*

CROSSWORD

No.8,205 Set by DANTE



ACROSS

1 Feathers tipped in blue (4,2,3,5)
10 Bird without a bill is silent (5)
11 It's significant, given real interpretation (9)
12 Quietly withdraw and go before the others (7)
13 Outstanding work in architecture (7)
14 Sticky appointments? (5)
16 Land a hole in one, with a climax (9)
19 Broken compass I'd disconnected (9)
20 Cash registers? (5)
22 A plot that should ultimately *bear fruit* (7)
25 One of many carried by the caddy (3-4)
27 Coastline irregular in parts (9)
28 He may be said to have got the message (5)
29 The burden of guilt (14)

DOWN

2 Sort of stall for the frisky carthorse (9)
3 Can get upset about chemical (5)
4 Her charges are usually small (9)
5 Be in suspense (5)
6 Lady dines out, showing gluttony perhaps? (6,3)
7 Major eastern state of US (5)
8 Soldier's stood up girl and married woman in Italy (7)
9 It's silly to get involved in an endless dispute (6)
15 Italian sympathy is pleasant to us (9)
17 *Craft association?* (5-4)
18 By which the fisherman's catch is measured? (3,6)
19 He backs Poles in track appearance (7)
21 A fair way out on Sunday excursion (6)
23 They may be game to take the helm, we hear (5)
24 Has a meal in readiness (5)
26 Girl whose first date is a fool (5)

The solution to last Saturday's prize puzzle will be published with names of winners on Saturday July 31.